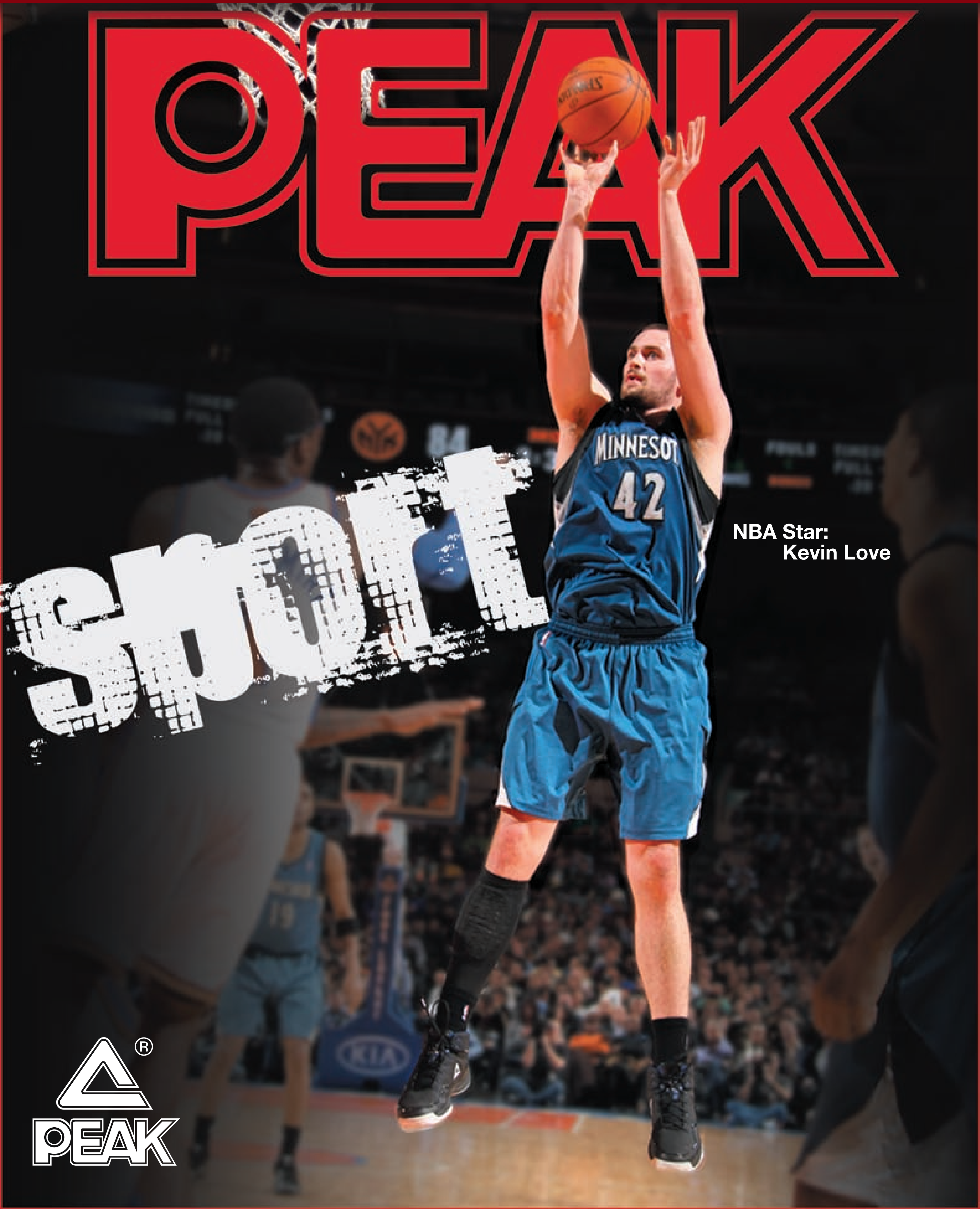
PEAK SPORT ANNUAL REPORT 2010



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

Stock Code: 1968

Peak endorsed NBA stars
(by alphabetical order)

- Beno Udrih
- Carl Landry
- Dorell Wright
- Gordon Hayward
- Jason Kidd
- Jason Richardson
- JaVale McGee
- Kevin Love
- Kyle Lowry
- Patrick Patterson
- Shane Battier

MISSION

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

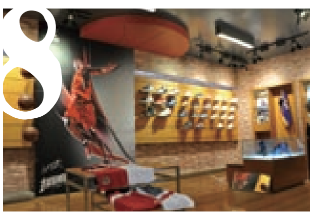
VISION

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

CORE VALUE

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

Contents



The Company was listed on the Main Board of Hong Kong Stock Exchange in September 2009. See pages 2 to 3 for the key corporate information.

Thanks to increased demand for our products and continuous expansion of our distribution network in China, our turnover and profits continued to grow in 2010. See page 8 for financial highlights.

Want a glance of the Group's five-year financial summary? Turn to page 9.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

COMPANY SECRETARY

Mr. Tsoi Ka Ho (蔡家豪) *CPA, ACA, FCCA*

AUTHORIZED REPRESENTATIVES

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

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 Limited

COMPANY WEBSITE

www.peaksport.com

Chairman's Statement

"During 2010, we aggressively seized market opportunities and maintained strong growth in revenue and profit."

Xu Jingnan
Chairman

Dear respectful shareholders,

On behalf of the Board of Directors of Peak Sport Products Co., Limited, it is my pleasure to present the audited annual results of the Group for the year ended 31 December 2010.

RESULTS OVERVIEW

29 September 2010 marked the one-year anniversary of the Company's listing on the Hong Kong Stock Exchange. During the year, we made outstanding achievements in an all-around way, laying down a solid foundation for our future development.

During 2010, we aggressively seized market opportunities and maintained strong growth in revenue and profit. During the year, turnover of the Group was RMB4,249.4 million, representing an increase of approximately 37.3% from RMB3,094.9 million in 2009. Profit attributable to equity shareholders was RMB822.3 million, representing an increase of 30.9% from RMB628.3 million in 2009. Basic earnings per share was RMB39.19 cents. The Board recommended a final dividend of HK10 cents per share for 2010, which, together with the interim dividend of HK7 cents per share, represented a dividend payout ratio of approximately 37% for the year.

"The Group will continue to place strong emphasis on promoting the professionalism and internationalism of the Peak brand in our future development."

BUSINESS REVIEW

Since the inception of our brand in 1991, the Group has been committed to building up a clear and consistent brand image to highlight our unique advantages in the sports products industry. The Group has been endeavouring to build up a top international sports brand through implementing the marketing strategies on international and professional branding and maintaining long-term cooperative relationships with various renowned sports tournaments and organizers since 2005.

During the year under review, in order to materialize our positioning strategy on international and professional branding, the Group continued our close cooperative relationships with various international renowned tournament organizers such as NBA and FIBA. The Group has been the exclusive marketing partner of NBA in China for three consecutive years and actively organized a number of activities for promotion of NBA, including "2010 Peak team China Tour" in which a number of NBA spokespersons of Peak were invited to China, sponsorship with NBA Jam Van and publicizing of Peak's NBA spokespersons and the matches played in China by the endorsed NBA teams. Through these activities, Peak's brand advantage was effectively highlighted. As of the end of 2010, the Group not only successfully signed endorsement agreements with 11 NBA players, it also entered into sponsorship agreements with the national basketball associations of a number of countries such as Australia, New Zealand and Serbia. On the 2010 FIBA World Championship held in Turkey, great successes were achieved

by the six national basketball teams sponsored by the Group including Serbia, New Zealand and Cote d'Ivoire, manifesting Peak's brand influence in the professional basketball sector.

With respect to product promotions, leveraging on our successful marketing experience accumulated from the basketball sector over 20 years, the Group timely launched new marketing strategies to expand into other sports sectors such as running and tennis while maintaining our focus on the basketball sector, thus diversifying our product mix and enhancing brand penetration. As for the tennis sector, the Group entered into an agreement with the Women's Tennis Association ("WTA") in May 2010 to become an official partner of the WTA Tour in the Asia-Pacific region. The Group also signed up the WTA player, Olga Govortsova, as our first spokesperson in the tennis sector to further promote our tennis products. Olga Govortsova also won the championship title in Women's Doubles at China Open 2010.

In addition, the Group continued our sponsorship of a number of international sports tournaments, including consecutive sponsorships of Stanković Continental Champion's Cup for the sixth time, the Tour of Qinghai Lake International Cycling Race for the fifth time and the title sponsorship of 2010 Peak ABA Championship.

In order to further expand our distribution network and increase our revenue, the Group enhanced trainings and guidance to our retail outlets through adjusting the functions of certain departments and implemented the strategy to increase the number of distributors and encourage them to open more authorized Peak retail outlets. In addition, the Group made great efforts to maintain the brand image of Peak's products at our retail outlets. The Group also worked closely with all relevant parties to further promote their brand awareness. During the year, the number of the Group's distributors increased from 36 at the end of 2009 to 45 at the end of 2010. The number of the Group's retail outlets increased from 6,206 at the end of 2009 to 7,224 at the end of 2010, representing a net increase of 1,018 outlets which covered the first, second and third tier cities in China.

With respect to research and development ("R&D"), the Group took active efforts to push forward our product design and development. During the year, the Group's R&D workshop in Los Angeles, USA came into operation and the scale of the Group's two R&D workshops in Beijing and Guangzhou was enlarged. All these enhanced our R&D system and significantly upgraded our design and innovation capabilities. The Group believes that the new design team has brought in rich international R&D

expertise and experience and enable us to provide customers with quality sports products of wider variety and higher-performance.

With respect to the Group's management methodology, we have been adopting the core management principle of "creating value for customers and society", adhering to the vision of "creating an internationally renowned brand", and following the corporate culture that advocates "unity, practicality and efficiency". In addition, we adopt the "people-oriented" management principle and assign roles to employees based on their talents. To enhance employees' recognition of our brand and culture and to strengthen their business skills and professional ethics, we provide extensive training to them. As a result, the Group has been able to maintain a relatively low level of staff turnover whilst the market was characterized by "shortage of workers". With unwavering dedication, the management and our employees are unified in one common goal of building the Peak brand as an international and professional sports brand.

SOCIAL RESPONSIBILITIES

Apart from business development, the Group has devoted itself to contributing to society for many years and has actively participated in community activities such as sponsorships for education and other needs of the underprivileged and support for reconstruction after disasters. In 2010, the total charitable donation made by the Group amounted to RMB3.99 million.

DEVELOPMENT STRATEGIES

2011 is the first year of the 12th Five-Year Plan. The PRC government will continue to implement proactive fiscal and prudent monetary policies to ease the impact of excess liquidity on economy and safeguard a stable economic development. We believe the economy of China can be maintained at a stable and relatively fast pace of development. The Group is very optimistic about the development of China's sports products industry. We believe that as China's urbanization process speeds up and life style changes, economy in the second and third tier cities will continue its fast growth, and more people will participate in sports activities, which will ultimately present us with increased market opportunities.

The Group will continue to place strong emphasis on promoting the professionalism and internationalism of the Peak brand in our future development. In terms of brand promotion, in addition to working with high-end promotion partners such as NBA and FIBA, the Group will seek to broaden and lengthen our product lines. Leveraging on our success in the basketball sector, the Group has introduced new marketing strategies. While maintaining our focus on the basketball sector, we plan to increase efforts in other sports categories such as tennis, running and football to extend brand reach through placing more advertisement as appropriate and actively identifying new promotion partners.

In terms of production, in order to have better control over our production process and to have the flexibility and ability to respond promptly to market changes, the Group will continue to maintain our in-house production capabilities at an appropriate level and therefore continue to expand our production lines to increase production capacity.

In terms of building our distribution network, the Group will continue to expand our retail outlets as well as their average floor areas, and increase our presence in the second and third tier cities in China as we believe they have enormous market potential that we can capture. While maintaining stable growth in the second and third tier cities, we will selectively expand our presence into the first tier cities to further extend our market coverage. In addition, we will restructure and increase the number of our distributors to enhance their penetration into smaller market segments, work on improving and fine-tuning our cooperation with distributors, and strengthen the incentive mechanism for distributors to improve their performance. The Group's turnover derived from overseas sales accounted for 9.4% of our total turnover for the year, representing an increase of 0.5 percentage points from 8.9% in 2009. In 2011, the Group will also continue to boost our overseas sales in an effort to open up international market.

In terms of human resources management, we will further improve management system and emphasize the "people-oriented" ideology. We believe our focus on "people-oriented" and on developing and recognizing talents will attract more people of higher calibre to join our Group. We will continue to enhance and improve our training programs and reward policies for our employees. We will also provide more promotion opportunities to facilitate a parallel development of employees and the Group.

APPRECIATION

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

Chairman
Xu Jingnan
15 March 2011

Financial Highlights

Gross profit grew by 39.4% to RMB1,616.3 million with **GROSS PROFIT MARGIN** rising to **38.0%**

TURNOVER grew by 37.3% to **RMB4,249.4** million

PROFIT FOR THE YEAR attributable to equity shareholders grew by 30.9% to **RMB822.3** million with net profit margin at 19.4%

FINAL DIVIDEND OF HK10 CENTS (equivalent approximately to RMB8.43 cents) per ordinary share is proposed

BASIC AND DILUTED EARNINGS PER SHARE amounted to RMB39.19 cents per share and RMB39.18 cents per share respectively

Number of authorized **PEAK RETAIL OUTLETS REACHED 7,224,** representing a net increase of 1,018 outlets

Five-Year Financial Summary

	For the year ended 31 December				
	2010 (RMB million)	2009 (RMB million)	2008 (RMB million)	2007 (RMB million)	2006 (RMB million)
Profitability data					
Turnover	**4,249.4**	3,094.9	2,042.0	1,014.6	623.9
Gross profit	**1,616.3**	1,159.7	667.8	306.0	177.2
Net profit for the year	**822.3**	628.3	376.0	166.0	85.9
Basic earnings per share (RMB cents)	**39.19**	36.12	25.06	11.07	5.73
Diluted earnings per share (RMB cents)	**39.18**	36.12	25.06	11.07	5.73
Profitability ratios					
Gross profit margin	**38.0%**	37.5%	32.7%	30.2%	28.4%
Net profit margin	**19.4%**	20.3%	18.4%	16.4%	13.8%
Effective tax rate	**17.6%**	10.6%	8.5%	5.6%	21.6%
Return on equity (Note 1)	**25.4%**	33.3%	64.2%	62.0%	90.9%
Operating ratios (as a percentage of turnover)					
Advertising and promotion expenses	**10.8%**	11.3%	7.5%	8.6%	6.2%
Staff costs	**6.3%**	5.2%	5.5%	4.2%	4.2%
Research and development expenses	**0.5%**	0.3%	0.3%	0.2%	0.2%

	As at 31 December				
	2010 (RMB million)	2009 (RMB million)	2008 (RMB million)	2007 (RMB million)	2006 (RMB million)
Assets and liabilities data					
Non-current assets	**438.0**	337.8	269.2	101.4	22.9
Current assets	**3,762.2**	3,062.3	1,165.4	774.8	302.9
Current liabilities	**671.4**	366.7	567.9	478.0	188.3
Non-current liabilities	**47.0**	31.2	92.7	0.1	–
Shareholders' equity	**3,481.8**	3,002.2	774.0	398.1	137.5
Current ratio	**5.6**	8.4	2.1	1.6	1.6
Gearing ratio (Note 2)	**0.0%**	0.0%	26.1%	2.7%	10.6%
Net asset value per share (RMB yuan)	**1.66**	1.43	0.52	0.26	0.10

	For the year ended 31 December				
	2010	2009	2008	2007	2006
Working capital data					
Average inventory turnover days (days) (Note 3)	**38**	36	43	66	61
Average trade receivables and bills receivable turnover days (days) (Note 4)	**63**	70	74	95	44
Average trade payables and bills payable turnover days (days) (Note 5)	**46**	42	79	130	63

Notes:

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

Peak endorsed NBA star: Kevin Love

Management Discussion and Analysis

"The inflation spiral has not brought about any adverse impact on the sports products industry in China during 2010..."

MARKET OVERVIEW

Global economic conditions

2010 started in a very uncertain economic environment amid the aftermath of the global financial crisis. However, thanks to the pro-active fiscal policy and moderately easy monetary policy ("PFMEM") adopted by the Chinese government during 2010, the demand for consumer goods including sports products in China still experienced strong growth during the year with the GDP and the total retail sales of consumer goods in China recording a year-on-year increase of 10.3% and 18.4% respectively. The inflation pressure, which is one of the side effects of the PFMEM and the quantitative easing monetary policy ("QE") adopted by some developed countries, has, however, been growing in most cities in China since the beginning of 2010. The demand for consumer goods from developed countries remained weak during 2010 mainly due to high unemployment, weak property market and debt crisis in those countries. On the other hand, the growth of demand for consumer goods from emerging markets was quite impressive during the year.

Sports products industry in China

Fortunately, the inflation spiral has not brought about any adverse impact on the sports products industry in China during

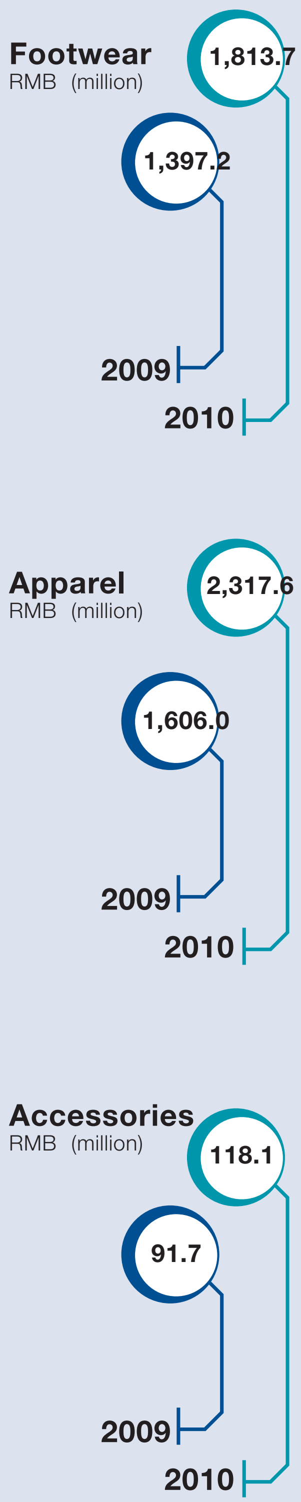
2010 mainly because many Chinese people also got their wage increases during the year. As these people, most of whom were our customers, earned more, they bought more sports products despite price increases because the expenditure on sports products still accounted for a small portion of their disposal income. In addition, with a change in the life style of the Chinese people causing more people participating in more sports activities than before and the rapid urbanization of rural areas in China, new demand for sports products has been growing throughout the year. As a result, the sports products industry as a whole enjoyed steady growth during 2010 with lower-tier cities having higher growth than higher-tier cities.

Prospects in 2011

It is expected that the change in the life style of the Chinese people as mentioned above and urbanization of the rural areas in China will continue to provide impetus for the growth of the sports products industry. The trend of faster growth in demand for sports products in the lower-tier cities in China will also continue because of government policy inclining towards the central and western regions and urbanization of rural areas. In overseas markets, the demand for sports products from developed countries will remain sluggish for a considerable time as it takes time for those countries to recover from their existing problems such as debt crisis and high unemployment. However, it is expected that the demand for sports products from emerging markets will continue to be strong in 2011 because of high economic growth in those countries and the benefit from the QE adopted by some developed countries. All in all, we are very optimistic about the development of the sports products industry in the coming years and expect satisfactory growth for the industry and our Group in 2011.

"The trend of faster growth in demand for sports products in the lower-tier cities in China will also continue…"

Turnover by product category



FINANCIAL REVIEW

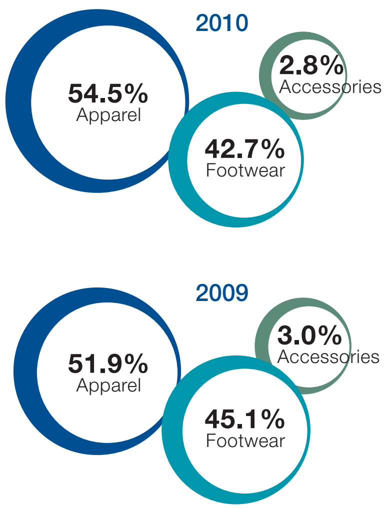
Turnover

The Group's turnover for 2010 amounted to RMB4,249.4 million (2009: RMB3,094.9 million), representing an increase of 37.3% when compared to that for 2009. The increase was mainly due to increased demand for our products and continuous expansion of our distribution network in China during the year. The increase in the demand for our products was attributable to our successful brand promotion and marketing strategies, as well as the organic growth of the Chinese sports products market. The number of authorized Peak retail outlets has increased by 16.4% to 7,224 as at 31 December 2010 from 6,206 as at 31 December 2009.

Analysis of turnover by product category:

	Year ended 31 December				
	2010		2009		
	RMB (million)	**% of turnover**	RMB (million)	% of turnover	Change (%)
Footwear	**1,813.7**	**42.7**	1,397.2	45.1	29.8
Apparel	**2,317.6**	**54.5**	1,606.0	51.9	44.3
Accessories	**118.1**	**2.8**	91.7	3.0	28.8
Total	**4,249.4**	**100.0**	3,094.9	100.0	37.3

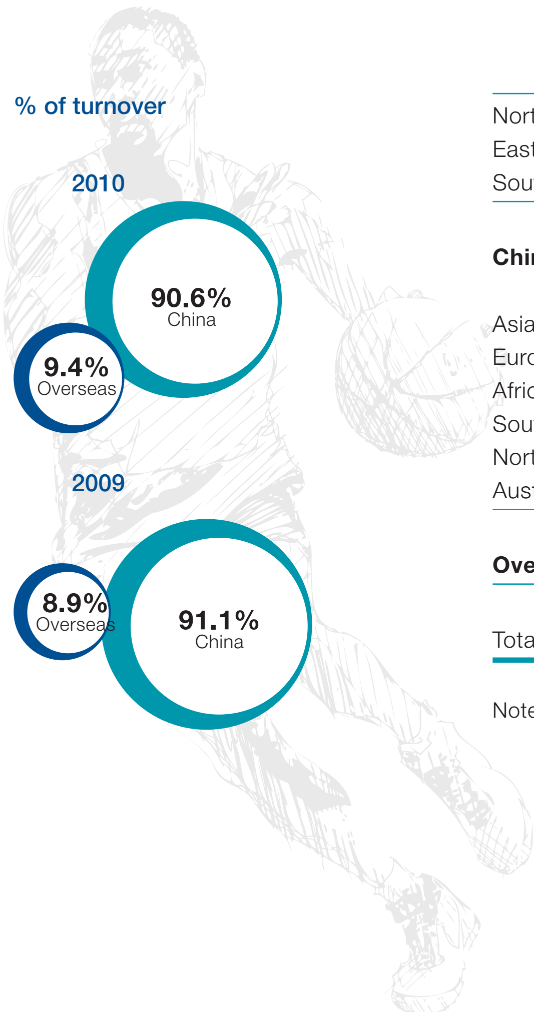
% of turnover



The ratio of turnover contributed by apparel products increased to 54.5% in 2010 from 51.9% in 2009 because of increased demand for apparel products during 2010. As the Group increased the depth of our apparel product lines during the year and the display areas for apparel products were generally larger than those for footwear products in our new or newly furnished retail outlets, customers purchased more apparel products than before during 2010.

Analysis of turnover by geographical location:

	Year ended 31 December				
	2010		2009		
	RMB (million)	**% of turnover**	RMB (million)	% of turnover	Change (%)
Northern region (Note 1)	**919.0**	**21.6**	632.4	20.4	45.3
Eastern region (Note 2)	**1,600.5**	**37.7**	1,148.5	37.1	39.4
Southern region (Note 3)	**1,329.0**	**31.3**	1,039.7	33.6	27.8
China market	**3,848.5**	**90.6**	2,820.6	91.1	36.4
Asia	**140.2**	**3.3**	89.2	2.9	57.2
Europe	**119.2**	**2.8**	98.2	3.1	21.4
Africa	**64.7**	**1.5**	15.6	0.5	314.7
South America	**48.1**	**1.1**	48.3	1.6	(0.4)
North America	**19.3**	**0.5**	11.8	0.4	63.6
Australia	**9.4**	**0.2**	11.2	0.4	(16.1)
Overseas markets	**400.9**	**9.4**	274.3	8.9	46.2
Total	**4,249.4**	**100.0**	3,094.9	100.0	37.3



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

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

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

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

The China market was still the most significant contributor to the Group's turnover in 2010 and accounted for 90.6% of the total turnover. The turnover derived from the China market and the overseas markets grew by 36.4% and 46.2% respectively in 2010 when compared to those in 2009. The increase in turnover derived from the China market was primarily attributable to an increased demand for our products and further expansion of the Group's retail outlets during 2010. The substantial increase in turnover derived from the overseas markets was mainly due to a recovery of demand in 2010 from the global financial crisis that had severely suppressed overseas demand for most consumer goods in 2009. In addition, the demand from the emerging markets such as Asia and Africa was very strong during 2010.

Gross profit by product

Analysis of contribution to gross profit by product category:

	Year ended 31 December				
	2010		2009		
	Gross profit RMB (million)	**Gross profit margin (%)**	Gross profit RMB (million)	Gross profit margin (%)	Change in gross profit margin (% points)
Footwear	**689.7**	**38.0**	528.7	37.8	0.2
Apparel	**883.7**	**38.1**	597.4	37.2	0.9
Accessories	**42.9**	**36.3**	33.6	36.6	(0.3)
Total	**1,616.3**	**38.0**	1,159.7	37.5	0.5

The gross profit margins for both footwear and apparel products have shown a slight increase during 2010 when compared to those in 2009. Such increases were in line with the Group's strategy of increasing gradually the gross profit margins of our products in recent years. The strategy has taken account of the affordability of our customers to ensure the competitiveness of our products in our targeted markets.

Selling price and volume

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

	Year ended 31 December					
	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)	**21.7**	**83.6**	16.5	84.7	31.5	(1.3)
Apparel (pieces)	**40.9**	**56.7**	30.1	53.4	35.9	6.2

Notes:

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

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

The average unit selling price for footwear products decreased by 1.3% to RMB83.6 in 2010 from RMB84.7 in 2009. The decrease was mainly due to a change in the product mix of the Group's footwear products. There had been a greater increase in the sale of lower-priced footwear categories such as running and vintage shoes during 2010.

The average unit selling price for apparel products increased by 6.2% to RMB56.7 in 2010 from RMB53.4 in 2009. Such increase was mainly caused by upward adjustments to the selling prices of our apparel products in response to an increase in the production costs and the Group's strategy of raising the gross profit margin of the products during the year.

Turnover per retail outlet and per unit retail floor area

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

	As at 31 December			Year ended 31 December			
	No. of retail outlets	**Total retail floor area** (sq. m.)	**Average floor area per retail outlet** (sq. m.)	**Average no. of retail outlets** (Note 1)	**Average total retail floor area** (sq. m.) (Note 2)	**Average turnover per retail outlet** (RMB'000) (Note 1)	**Average turnover per unit retail floor area** (RMB'000) (Note 2)
2010	**7,224**	**553,090**	**76.6**	**6,715**	**503,064**	**573**	**7.7**
2009	6,206	453,038	73.0	5,693	407,785	495	6.9
Changes (%)	16.4	22.1	4.9	18.0	23.4	15.8	11.6

Notes:

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

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

The average floor area per authorized Peak retail outlet increased to 76.6 square metres as at 31 December 2010 from 73.0 square metres as at 31 December 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 authorized Peak retail outlet and the average turnover per unit retail floor area during 2010 increased by 15.8% and 11.6% respectively when compared to those for 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 year.

Peak endorsed tennis player:
Olga Govortsova

Cost of sales

Analysis of cost of sales by production method:

	Year ended 31 December				
	2010		2009		
	RMB (million)	**% of total**	RMB (million)	% of total	Change (%)
Self-production					
Raw materials	**496.1**	**66.2**	332.9	67.2	49.0
Direct labour	**142.0**	**18.9**	95.1	19.2	49.3
Overhead	**111.6**	**14.9**	67.6	13.6	65.1
Total	**749.7**	**100.0**	495.6	100.0	51.3
Cost of sales					
Self-production	**749.7**	**28.5**	495.6	25.6	51.3
OEM	**742.8**	**28.2**	765.1	39.5	(2.9)
Subcontracting arrangements	**1,140.5**	**43.3**	674.5	34.9	69.1
Total	**2,633.0**	**100.0**	1,935.2	100.0	36.1

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

The ratio of total cost of self-production to total cost of sales increased slightly to 28.5% in 2010 from 25.6% in 2009. Such increase was primarily due to the increases in the self-production ratios for both footwear and apparel products during the year. Although the Group had been expanding considerably our production capacities of both footwear and apparel products by adding more production lines in our new plants, the overall self-production ratio only showed a small increase in 2010 when compared to that in 2009 mainly because we also increased the volume of our outsource arrangements with our contract manufacturers due to strong demand for our products during the year.

Other revenue and net losses

Other revenue for 2010 increased to RMB20.1 million (2009: RMB11.2 million) mainly due to increased interest income derived from the proceeds from the Company's initial public offering and increased refunds of value added tax from local governments during the year. Other net losses amounted to RMB6.8 million (2009: other net income of RMB4.6 million) mainly because the Group incurred exchange losses in 2010 and there had been a gain on disposal of a land use right (lease prepayment) in 2009.

Selling and distribution expenses

Total selling and distribution expenses for 2010 amounted to RMB505.4 million (2009: RMB380.2 million), representing an increase of 32.9% when compared to those for 2009. The increase was mainly attributable to increased advertising and promotion expenses to further promote the Peak brand and our products as well as increased staff costs to cope with the expansion of the Group's business activities during the year.

Administrative expenses

Total administrative expenses for 2010 amounted to RMB126.1 million (2009: RMB77.6 million), representing an increase of 62.5% when compared to those for 2009. The increase was in line with the expansion of the Group's business activities during the year and was primarily due to: (i) increased staff costs for our management and administrative personnel; (ii) increased research and development expenses; and (iii) increased travelling expenses.

Income tax

Income tax expenses increased by 135.8% to RMB175.9 million in 2010 from RMB74.6 million in 2009. This increase was mainly due to increases in the Group's turnover and the effective tax rate in 2010. The Group's effective tax rate increased to 17.6% in 2010 from 10.6% in 2009 mainly because two of our subsidiaries were subject to a corporate income tax rate of 12.5% in 2010 while they were exempted from the corporate income tax in 2009.

Net profit and net profit margin

Net profit increased by 30.9% to RMB822.3 million for 2010 from RMB628.3 million for 2009 while net profit margin decreased to 19.4% for 2010 from 20.3% for 2009. The increase in net profit was mainly attributable to the increase in turnover during the year, while the decrease in net profit margin was primarily a result of: (i) an increase in the gross profit margin to 38.0% for 2010 from 37.5% for 2009; (ii) a decrease in the ratio of advertising and promotion expenses to total turnover to 10.8% for 2010 from 11.3% for 2009; and (iii) an increase in the effective tax rate of the income tax which was partially offset by (i) and (ii).

Working capital ratios

The average inventory turnover days for the year ended 31 December 2010 increased to 38 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 decreased to 63 days for the year ended 31 December 2010 from 70 days for the year ended 31 December 2009. The decrease was in line with the Group's policy to gradually shorten the T&BR turnover days to a level below industry average in coming years.

The average trade payables and bills payable turnover days increased to 46 days for the year ended 31 December 2010 from 42 days for the year ended 31 December 2009 mainly because the Group stopped early settlements of accounts of certain suppliers which had been severely affected by the global financial crisis in 2009.

Liquidity and capital resources

The net cash inflow from operating activities of the Group for the year ended 31 December 2010 amounted to RMB1,160.5 million (2009: RMB268.9 million). As at 31 December 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 RMB2,662.5 million, representing a net increase of RMB674.3 million when compared to the position as at 31 December 2009.

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

	Year ended 31 December 2010 RMB'000
Net cash inflow from operating activities	1,160,479
Net capital expenditure	(140,495)
Dividends paid	(349,250)
Other net cash inflow	3,620
Net increase in cash and bank deposits	674,354

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

Foreign exchange risk

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

Pledge of assets

The following assets were pledged to banks as security for bills payable and certain banking facilities as at 31 December:

	Carrying amount as at 31 December	
	2010	2009
	RMB'000	RMB'000
Buildings	**156,036**	159,837
Construction in progress	**–**	4,177
Bank deposits	**53,963**	55,344
Lease prepayments	**14,534**	16,257

OPERATIONS REVIEW

Expansion in distribution network

The network of authorized Peak retail outlets across China, which is owned and operated either by our distributors or by retail outlet operators, has been providing an effective retail channel for our products. With increasing demand for sports products in China and the enhanced image and popularity of the Peak brand, the Group was able to expand our retail network steadily into all provinces and major cities in China in 2010. As at 31 December 2010, the total number of authorized Peak retail outlets was 7,224 (2009: 6,206), representing a net increase of 1,018 outlets.

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

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

	Number of retail outlets as at 31 December		
	2010	2009	change (%)
Northern region	**1,884**	1,564	20
Eastern region	**3,025**	2,631	15
Southern region	**2,315**	2,011	15
Total	**7,224**	6,206	16

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

Analysis of authorized Peak retail outlets by type of city:

	Number of retail outlet as at 31 Decmeber		
	2010	2009	Change (%)
First-tier city	**398**	315	26
Second-tier city	**1,523**	1,319	15
Third-tier city	**5,303**	4,572	16
Total	**7,224**	6,206	16

Analysis of authorized Peak retail outlets by store category:

	Number of retail outlet as at 31 December		
	2010	*2009	Change (%)
Flagship Store	**19**	12	58
Basic Store	**4,549**	3,766	21
Department Store or Shopping Mall Outlet	**2,622**	2,428	8
Basketball Specialty Outlet	**34**	–	N/A
Total	**7,224**	6,206	16

* 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 authorized Peak retail outlets are classified into the above 4 categories. Flagship stores are street-level outlets situated in prime locations in major cities and each flagship store has a floor area of at least 200 square metres and a monthly turnover 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. The specialty outlets were launched during 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 authorized 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 2010, the Group held three such sales fairs for our Autumn 2010, Winter 2010/Spring 2011 and Spring 2011/Summer 2011 collections at Xiamen International Conference and Exhibition Center on 8 January, 18 May and 18 September 2010 respectively. We received overwhelming responses from our distributors in these sales fairs with satisfactory order growth when compared to that in the preceding year.

We select our distributors according to a range of factors such as retail experience in sports products, ability to develop and operate a network of retail outlets, adequacy of 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 agreement contains principal terms such as geographical exclusivity, sales and expansion targets, payment terms, discounts and rewards, etc. Subject to our approval and written consent, we allow our distributors to appoint retail outlet operators. However, we do not enter into agreements with such retail outlet operators other than the licensing of our trademarks to them.

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

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

On-site inspections of authorized Peak retail outlets are regularly carried out by our 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 2010, the Group continued to expand the coverage of our computerized management information system ("MIS"), which collects real-time operational data and feedback from the connected authorized Peak retail outlets. As at 31 December 2010, 1,323 retail outlets were connected to our MIS.

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

Overseas markets

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

During 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; and

– 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. internationalism and professionalism), 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 in 2010. The Group believes that the new strategy will further enhance our brand image and positioning and ensure sustained growth in popularity of the Peak brand.

Basketball focus

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 coming years.

NBA league, teams and players

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

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

As at 31 December 2010, the Group endorsed a total of 11 NBA players. With these players, we had presence in 8 teams out of the 30 NBA teams as follows:

NBA players	NBA teams
Shane Battier	Houston Rockets
Kyle Lowry	Houston Rockets
Patrick Patterson	Houston Rockets
Jason Kidd	Dallas Mavericks
Carl Landry	Sacramento Kings
Beno Udrih	Sacramento Kings
Jason Richardson	Orlando Magic
Kevin Love	Minnesota Timberwolves
Gordon Hayward	Utah Jazz
Dorell Wright	Golden State Warriors
JaVale McGee	Washington Wizards

FIBA

The Group has had an association with FIBA since 2008. The Group has been the "Official Apparel and Footwear Partner of FIBA (Asia)" since 2009 and the "Official Sponsor/Partner" of 2011 FIBA Asia Championships for Men and Women". The Group has also entered into a licensed product agreement with FIBA under which the Group, among other things, has 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 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 with sportswear and sports gears in all international tournaments such as the 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 Lebanese national teams.

2010 Peak Team China Tour

"2010 Peak Team China Tour" was 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. The 2010 Peak Team China Tour was officially kicked off in Beijing on 28 July 2010. The Group invited six of our NBA spokespersons (i.e. Ron Artest, Jason Kidd, Shane Battier, Carl Landry, Mickael Pietrus and Jason Richardson) to participate 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.

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 was held across twelve cities including Beijing, Tianjin and Qingdao from July to September in 2010. The Group organized the event and sponsored all sports products. The event has provided a great opportunity to further promote both NBA and the Peak brand.

2010 FIBA World Championship

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

2010 Peak ABA Championship ("PAC")

PAC was jointly hosted by the Asian Basketball Association and Emperor Financial Capital Group and organized by the Hong Kong Basketball Association in September 2010. Being a title sponsor and official sports apparel supplier of the tournament, the Group, among other things, supplied sports apparel to two participating teams, the Malaysia team and the Thailand team, and all officials and staff of the tournament.

2010 Peak 5 vs. 5 Basketball Challenge

In order to nurture new talented basketball teenagers and advocate basketball 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 basketball events

The Group also sponsored the following basketball events in 2010:

– Quanzhou 100 Teams/1000 Matches Basketball Competition (泉州百隊千場籃球賽) held in July 2010; and

– Peak – Xiamen Basketball Camp (匹克廈門籃球夏令營) held in July 2010.

New tennis initiative

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

Women's Tennis Association ("WTA") Tour

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

– ASB Classic (Auckland, Australia);

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

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

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

– Malaysian Open (Kuala Lumpur, Malaysia).

The Group, among other things, obtained a licence to develop, manufacture, market and sell the WTA-PEAK co-branded products in the Asia Pacific region. In addition, the Group is the official cooperative partner of the WTA Carnival, in which interactive games and tennis-related activities will be organized for tennis fans in certain cities in China.

New endorsed athlete

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

Embarking on running

In line with the new marketing strategy, the Group embarked on the promotion of our running footwear during summer in 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 Sports TV, Jiangsu Sports TV and a number of sports magazines, and the promotion has successfully boosted the recognition of the Peak brand in the running sector.

Preparing for football

Despite the dismal atmosphere surrounding the professional football league in China, the Group believes that this is only a temporary situation and remains positive about the future development of this sports activity in China. The Group adopted the same strategy of building up an international and professional brand image to promote its football sports products. A number of promotion activities for football carried out during 2010 were targeted not only at the domestic market but also specific overseas markets including the Middle East and Central Asia.

<u>Iraq Football Association</u>

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

Chinese Football Teams

As at 31 December 2010, the Group sponsored six Chinese football league teams, including Beijing Baxishengshi, Shanghai Zhongbang, Shenyang Dongjin and Hubei Luyin, in preparation for the revival of the football sector 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.

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 Iraqi teams in all training, games and sports events.

2010 Tour of Qinghai Lake International Cycling Race ("QLCR")

QLCR is a top-tier international highway cycling competition held at a racing track with the highest attitude above sea-level which is approved by the International Cycling Association. The competition is held from July to August in Qinghai Lake every year with top cyclists from the five continents of the world participating in the competition. The Group has become the collaborative partner of the competition and the sole supplier of sports products for the officials of the event organizer for 5 consecutive years since 2006.

Guangzhou 2010 Asian Games

The Group sponsored delegations from several countries in the Guangzhou Asian Games held in November 2010. These delegations included Tadjikistan national teams, Kyrgyzstan national football team and Iraqi national teams.

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 total footwear production volume for 2010 was approximately 21.5 million pairs, of which approximately 39.5% were produced in-house and approximately 60.5% 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 total apparel production volume for 2010 was approximately 42.2 million pieces, of which approximately 22.0% were produced in-house and approximately 78.0% 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 capacity 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 31 December 2010		5	9	24	58
Estimated annual production capacity(Note) (pairs/pieces)	2009	3.7 million	3.5 million	1.2 million	5.0 million
	2010	**3.7 million**	**5.0 million**	**2.3 million**	**7.3 million**
Actual production volume (pairs/pieces)	2009	3.6 million	2.9 million	1.3 million	4.7 million
	2010	**3.8 million**	**4.7 million**	**2.1 million**	**7.2 million**
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 production capacity upon full production (pairs/pieces)		N/A	12.0 million	N/A	16.4 million

Note:

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

Research & development ("R&D")

We continuously endeavour to introduce high quality products with innovative designs and functionality to our customers. With our long history in the sports products industry, we possess expertise in manufacturing sports footwear, in particular basketball shoes. In order to maintain and enhance our edge in designing and manufacturing basketball shoes, we officially launched our R&D workshop in Los Angeles in the United States in December 2010. The workshop is dedicated to the R&D of basketball shoes for our endorsed NBA players and basketball enthusiasts. We believe that the new design team of the workshop has brought in valuable experience, insights and ideas to enhance our design work for basketball shoes.

As at 31 December 2010, the Group operated four R&D workshops located in Beijing, Guangzhou, Quanzhou and Los Angeles. These workshops altogether employed approximately 200 research and design professionals. Through the interactions of the design teams in different workshops, we are capable of producing more innovative and stylish products to satisfy the needs of different consumer segments all over the world. During 2010, the Group introduced 684 new footwear products, 1,270 new apparel products and 479 new accessory products to the market.

In addition to a product's functionality and style, the R&D workshops take account of environmental protection issues when selecting raw materials and designing a new product. The Group will continue to introduce more environmentally friendly or recycled materials and to adopt energy-saving processes to manufacture its products. Set out below are some of the raw materials and fibres with special features/functions that the Group has utilized to manufacture its new footwear and apparel products during 2010:

Apparel

1. Environmentally-Friendly Organic Cotton: The material is a zero pollution fabric. No chemical fertilizers, pesticides or chemicals are used during its growth and processing. It is smooth and gentle with better breathability and sweat absorption ability.

2. 3D Stereoscopic Moisture Absorption Layer: The special 3D stereoscopic structure that is in the inside layer of the material minimizes the contact with the skin and helps to keep body dry and more comfortable.

3. 3M Hi-Performance Warm Fabric-Thinsulate™: The fabric is a new padded jacket material which is developed by 3M Company U.S.A. The special features of the fabric include: (i) 30 times thinner than a hair and only 10% of the diameter of an ordinary fiber; (ii) ability to insulate from low temperature of -10°C with very light weight; (iii) thickness of only 2/3 of the down feather but offering the same warm protection effect.

4. Dupont Hi-Performance Fabric Finishing: This special fabric finishing is waterproof, oil proof and dirt proof. It adopts Teflon technology developed by DuPont Company. The fabric contains organic fluorine which makes it resist high and low temperatures and have soft, breathable and easy-to-tidy features.

5. Icesence Fibre: The fibre, which contains element of nano jades, is an energy-saving, low carbon and new cool down material. It has a good thermal conduction, offering a 1-2 degree instant cool feeling and anti-UV function.

Footwear

1. *Basketball*
   - Exclusive "Cushion-3 EX" technology offers better absorption and dispersion of shock and bounce.
   - Newly developed venting sole with cool-free technology offers a superior ventilation property for shoes.

2. *Running*
   - Single layer nylon mesh offers not only lightness for shoes, and it also improves air permeability and helps feet to get rid of sultriness.
   - Ejaculatory technology helps to keep air permeability and provide a good support.

3. *Tennis*
   - Exclusive-owned Surface Technology ensures air permeability and lightweight, with ventilation holes providing cool wearing effect.

4. *Causal*
   - Sole could be easily bent for daily wearing.
   - Heels could be put down with functionality similar to summer sandals.
   - Upper material, which uses Oxford and Lycra, provides waterproof function and comfort.

Supply chain management

A significant portion of the Group's total production of footwear and apparel was outsourced to contract manufacturers. We have two types of outsource arrangements with our contract manufacturers: (1) subcontract arrangements; and (2) arrangements with original equipment manufacturers ("OEM"). Under the subcontract arrangements, we provide subcontractors with raw materials and pay them processing fees for manufacturing finished products for us. Under the OEM arrangements, we provide OEMs with the designs and specifications of our products and recommend suppliers for them to procure raw materials for their production. The OEM arrangements allow us to devote less of our management time on monitoring the whole production process so as to focus our resources on other areas such as monitoring Peak's sales network and enhancement of our brand image, while the subcontract arrangements enable us to obtain more control over the production process.

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

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

- We source our raw materials from suppliers located in nearby regions such as Fujian Province, Guangdong Province and Jiangxi Province. The proximity of these suppliers to our production facilities 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 retail outlet operators to review our new product collections and place pre-season orders generally 6 months in advance of the delivery of the ordered products. With this practice, production can be better planned in advance to ensure smooth supply of products to the market.

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 to recruiting, training and rewarding our staff. During 2010, over 2,100 new production staff were recruited for the new production facilities at Hui'an, Fujian Province and Shang'gao, Jiangxi Province. We also recruited new staff for a number of departments including sales and marketing, logistics and R&D to cope with the expansion of our business. As at 31 December 2010, the Group's total headcount was 10,278.

We care for the career development of our staff and provide various kinds of training courses and guidance to enhance their technical and product knowledge as well as knowledge of industry quality standards and workplace safety standards. We launched pre-job training programmes for new joiners as well as other training programmes related to management skills, professional role, etc. During 2010, accumulated training hours exceeded 1,700 hours, and over 1,000 staff participated in these training programmes.

Our "Peak Business School", which is established to provide systematic training to our front-line sales staff, also provides training to our distributors and retail outlet operators regarding Peak product knowledge and selling and promotion skills. During 2010, the school held 16 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 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 image 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 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.

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. In 2011, the Group is going to open about 800 authorized Peak retail outlets through its distributors or retail outlet operators. Most of these new outlets will be opened in the second-tier and third-tier cities because of higher economic growth in those areas. In addition, the Group will continue to increase the size (in terms of average area per outlet) of authorized Peak retail outlets in coming years.

In 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 design capability, the Group officially launched our new R&D workshop in Los Angeles in the United States at the end of 2010. Our research team at headquarters will collaborate with the new design team to enhance product design and innovation, such as using raw materials that are environmentally-friendly for our products. By working closely with the new design team, our local designers will be able to acquire more international knowledge and experience and develop high quality products that are more stylish and with better performance.

Expansion of production capacity

As mentioned above, maintaining our own production capabilities will enable us to have better control of our production process and the flexibility and ability to respond promptly to market changes. Accordingly, the Group will invest approximately RMB150 million to 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 2011.

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2010.

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

The Company has applied the principles as contained in the CG Code during the year ended 31 December 2010.

In the opinion of the Board, the Company has complied with all the code provisions set out in the CG Code during the year ended 31 December 2010. The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the increasingly tightened regulatory requirements and to meet the rising expectations of shareholders and investors. The following summarizes the Company's corporate governance practices.

(A) THE BOARD

(A.1) Responsibilities and Delegation

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

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

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

(A.2) Board Composition

The Board members during the year ended 31 December 2010 and up to the date of this report are as follows:

EDs:

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

NEDs:

Ms. Wu Tigao
Mr. Shen Nanpeng
(Member of the Remuneration Committee)
Mr. Zhu Linan
Dr. Hu Zhanghong
(Resigned on 15 November 2010)

INEDs:

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

Biographical details of the current Directors and the relationship among them are set out in the section headed "Directors and Senior Management" on pages 42 to 45 of this annual report.

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

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

The INEDs possess different business and professional backgrounds. Throughout the year ended 31 December 2010, the Board has met the requirements of Listing Rule 3.10 of having at least three independent non-executive directors with at least one of them possessing appropriate professional qualifications and accounting and related financial management expertise. However, due to and upon the resignation of Dr. Rock Jin as an INED on 31 January 2011, the Company had only two INEDs, which caused the number of INEDs falling below the aforesaid minimum number required. Dr. Rock Jin's resignation also led to the insufficiency in the number of the Company's Audit Committee members (the minimum number as required under Listing Rule 3.21 is three) and in the number of INEDs in the Company's Remuneration Committee (a majority of the members of a listed issuer's remuneration committee should be independent non-executive directors according to the code provision B.1.1 of the CG Code). The Board has subsequently fully complied with the above Listing Rule and code provision requirements upon its appointment of Dr. Ouyang Zhonghui as an INED and a member of each of the Audit Committee and Remuneration Committee on 10 March 2011 to fill the vacancies left by Dr. Rock Jin. Details of the above-mentioned changes are set out in the Company's announcements dated 31 January 2011 and 10 March 2011 respectively.

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

(A.3) Board Meetings and Board Practices

The Board meets regularly and holds at least four regular meetings at approximately quarterly intervals in a year, for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. Additional meetings are held when significant events or important issues are required to be discussed and resolved. During the year ended 31 December 2010, the Board held 4 regular meetings. Details of individual attendance of each Director at these meetings are set out below:

Directors	Meetings attended/held	Attendance (%)
EDs		
Mr. Xu Jingnan *(Chairman)*	4/4	100
Mr. Xu Zhihua	4/4	100
Mr. Xu Zhida	4/4	100
NEDs		
Ms. Wu Tigao	4/4	100
Mr. Shen Nanpeng	4/4	100
Mr. Zhu Linan	4/4	100
Dr. Hu Zhanghong (Note 1)	2/3	67
INEDs		
Dr. Xiang Bing	3/4	75
Mr. Wang Mingquan	4/4	100
Dr. Rock Jin (Note 2)	4/4	100
Dr. Ouyang Zhonghui (Note 3)	N/A	N/A

Notes:

1. Dr. Hu Zhanghong has resigned as a NED with effect from 15 November 2010. Prior to his resignation, a total of 3 Board meetings were held during the year ended 31 December 2010.

2. Dr. Rock Jin has resigned as an INED with effect from 31 January 2011.

3. Dr. Ouyang Zhonghui has only been appointed as an INED with effect from 10 March 2011. Accordingly, the attendance at the Board meetings held during the year ended 31 December 2010 is not applicable to him.

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

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

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

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

(A.4) Chairman and Chief Executive Officer

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

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

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

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

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

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

Pursuant to the aforesaid provisions in the Company's Articles of Association, Dr. Ouyang Zhonghui, who was appointed by the Board on 10 March 2011 to fill the casual vacancy left by the resignation of Dr. Rock Jin, shall hold office until the forthcoming 2011 AGM whereas Mr. Xu Zhihua, Ms. Wu Tigao and Mr. Wang Mingquan, being not less than one-third of the Directors who are subject to retirement by rotation, shall retire by rotation at the 2011 AGM. The above retiring Directors, being eligible, will offer themselves for re-election at the 2011 AGM. The Nomination Committee of the Company has also considered and recommended the re-election of these four retiring Directors. The Company's circular, sent together with this annual report, contains detailed information of these Directors pursuant to the requirements set out in the Listing Rules.

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

(A.6) Induction and Continuing Development for Directors

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

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

(A.7) Securities Transactions by Directors

The Company has adopted the Model Code as its own code of conduct regarding directors' securities transactions in the Company. All the Directors, except for Mr. Xu Zhida, have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2010 and up to the date of this annual report. Mr. Xu Zhida informed the Company that he inadvertently purchased 1,000,000 shares of the Company on 19 January 2011, which was shortly after the commencement of the black-out period for Directors' dealings in shares of the Company on 14 January 2011. Mr. Xu Zhida advised that his purchase of the shares during the black-out period was a complete oversight on his part. He confirmed to the Company that at the time he made the purchase, he was not in possession of any insider or price sensitive information. With a view to demonstrating that he had no intention to make any short term profit from the purchase, he disposed of all the shares purchased on 19 January 2011 on the following day at a loss.

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

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

(B) BOARD COMMITTEES

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

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

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

(B.1) Executive Committee

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

(B.2) Audit Committee

The Audit Committee was established in compliance with the Listing Rules and the CG Code. Throughout the year ended 31 December 2010, the Audit Committee comprised all the three INEDs, namely Dr. Xiang Bing, Dr. Rock Jin and Mr. Wang Mingquan. As stated in section (A.2) above, the Audit Committee comprised only two members immediately upon the resignation of Dr. Rock Jin as an INED on 31 January 2011, and subsequently on 10 March 2011, Dr. Ouyang Zhonghui was appointed as an INED and a member of the Audit Committee to fill the vacancy. The chairman of the Audit Committee is Dr. Xiang Bing who possesses the appropriate accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

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

During the year ended 31 December 2010, the Audit Committee held four meetings. Details of individual attendance of each member at these meetings are set out below:

Audit Committee Members	Meetings attended/held	Attendance (%)
Dr. Xiang Bing *(Chairman)*	3/4	75
Dr. Rock Jin *(resigned on 31 January 2011)*	4/4	100
Mr. Wang Mingquan	4/4	100
Dr. Ouyang Zhonghui (Note)	N/A	N/A

Note: Dr. Ouyang Zhonghui has only been appointed as a member of the Audit Committee since 10 March 2011. Accordingly, the attendance at the Audit Committee meetings held during the year ended 31 December 2010 is not applicable to him.

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

The Audit Committee has performed the following major works during the year ended 31 December 2010:

- Review and discussion of the annual report and accounts for the year ended 31 December 2009, and the related accounting principles and practices adopted by the Group;

- Review and discussion of the internal control system;

- Review and discussion of the continuing connected transaction of the Group for the year ended 31 December 2009;

- Review of the independence of the external auditor and recommendation of its re-appointment at the Company's 2010 AGM;

- Review and discussion of the half-year report and accounts for the six months ended 30 June 2010, and the related accounting principles and practices adopted by the Group; and

- Discussion of the nature, plan and scope of the Company's audit for the year ended 31 December 2010.

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

(B.3) Remuneration Committee

The Remuneration Committee was established in compliance with the CG Code. Throughout the year ended 31 December 2010, the Remuneration Committee comprised five members, being one ED, namely Mr. Xu Jingnan, one NED, namely Mr. Shen Nanpeng, and three INEDs, namely Dr. Xiang Bing, Dr. Rock Jin and Mr. Wang Mingquan. As stated in section (A.2) above, Dr. Rock Jin resigned as an INED and also a member of the Remuneration Committee on 31 January 2011 while Dr. Ouyang Zhonghui was appointed as an INED and a member of the Remuneration Committee on 10 March 2011. The chairman of the Remuneration Committee is Dr. Xiang Bing.

The primary functions of the Remuneration Committee include the followings:

- to make recommendations to the Board on the Company's policy and structure of the remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- to ensure that no Director or any of his/her associate is involved in deciding his/her own remuneration; and
- to have the delegated responsibility to determine the specific remuneration packages of all EDs and senior management, and make recommendations to the Board of the remuneration of NEDs and INEDs.

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

During the year ended 31 December 2010, the Remuneration Committee held one meeting. Details of individual attendance of each member at the meeting are set out below:

Remuneration Committee Members	Meeting attended/held	Attendance (%)
Dr. Xiang Bing *(Chairman)*	1/1	100
Mr. Wang Mingquan	1/1	100
Mr. Shen Nanpeng	1/1	100
Mr. Xu Jingnan	1/1	100
Dr. Rock Jin *(resigned on 31 January 2011)*	1/1	100
Dr. Ouyang Zhonghui (Note)	N/A	N/A

Note: Dr. Ouyang Zhonghui has only been appointed as a member of the Remuneration Committee since 10 March 2011. Accordingly, the attendance at the Remuneration Committee meeting held during the year ended 31 December 2010 is not applicable to him.

At the aforesaid Remuneration Committee meeting, the remuneration packages and year-end bonuses of EDs were reviewed by reference to the Group's performance and profitability as well as the remuneration level of directors in some listed corporations in our industry. The Remuneration Committee also discussed and proposed amendments to the Company's share option scheme to extend the scope of participants to include parties who have made valuable contribution to the Group. Details of the remuneration of Directors are set out in Note 7 to the consolidated financial statements on pages 76 and 77 of this annual report.

(B.4) Nomination Committee

The Nomination Committee was established in compliance with the recommended best practice set out in the CG Code. Throughout the year ended 31 December 2010, the Nomination Committee comprised all the three INEDs, namely Dr. Rock Jin, Dr. Xiang Bing and Mr. Wang Mingquan and the chairman was Dr. Rock Jin. Dr. Rock Jin resigned as an INED and also the chairman of the Nomination Committee on 31 January 2011. Mr. Wang Mingquan and Dr. Ouyang Zhonghui were appointed as the chairman and a member of the Nomination Committee respectively on 10 March 2011.

The primary duties of the Nomination Committee include the followings:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and to recommend any changes to the Board;

- to identify qualified and suitable individuals to become Board members and to select or make recommendations to the Board on the selection of individuals nominated for directorships;

- to assess the independence of INEDs, having regard to the requirements under the Listing Rules; and

- to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular, the Chairman and the Chief Executive Officer of the Company.

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

During the year ended 31 December 2010, the Nomination Committee held one meeting. Details of individual attendance of each member at the meeting are set out below:

Nomination Committee Members	Meeting attended/held	Attendance (%)
Mr. Wang Mingquan *(Existing Chairman)*	1/1	100
Dr. Rock Jin *(Former Chairman: resigned on 31 January 2011)*	1/1	100
Dr. Xiang Bing	1/1	100
Dr. Ouyang Zhonghui (Note)	N/A	N/A

Note: Dr. Ouyang Zhonghui has only been appointed as a member of the Nomination Committee since 10 March 2011. Accordingly, the attendance at the Nomination Committee meeting held during the year ended 31 December 2010 is not applicable to him.

At the foregoing meeting, the Nomination Committee: (i) reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Group; (ii) considered and recommended the re-election of the retiring Directors at the 2010 AGM; and (iii) assessed the independence of INEDs.

(C) ACCOUNTABILITY AND AUDIT

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

All the Directors have acknowledged their responsibilities for preparing and reviewing the Company's financial statements and ensure that the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2010 and of the profit and cash flows of the Group for the year then ended. In preparing the Company's financial statements, the Board has selected and applied suitable accounting policies and principles generally accepted internationally, has made prudent and reasonable judgements and estimates, and has prepared the financial statements on a going concern basis. The statement by the external auditor of the Company regarding its reporting responsibilities on the financial statements of the Company and the Group is set out in the "Independent Auditor's Report" on page 56 of this annual report.

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

For the year ended 31 December 2010, the remuneration paid and payable to KPMG, the Company's external auditor, amounted to RMB1.9 million for audit services to the Group and amounted to RMB0.7 million for non-audit services, i.e., review for the Group's interim financial report.

(D) INTERNAL CONTROLS

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

During the year ended 31 December 2010, the Board reviewed the effectiveness of the Group's internal control system. The review covered all material controls, including financial, operational and compliance controls and risk management functions. The Board also considered the Group's adequacy of resources, qualifications and experience of staff in its accounting and financial reporting functions, and their training programmes and budget.

(E) COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

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

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

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

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

Corporate Social Responsibility Report

STATEMENT OF POLICIES

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

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

TO GROW WITH OUR STAFF

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

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

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

Every year, the Group recruits outstanding graduates through vigorous interviews and selection procedures. These trainees generally undergo a year of training and appraisal, through which trainees with good potential are selected for further training and cultivation as candidates for the Group's management team in future. The Group specifically prepared "Procedures and administration for training potential candidates for management team", which expressly specifies the training period, process and objectives for the training of such potential candidates. In 2010, 70 candidates were subject to the above-mentioned training.

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

TO FULFILL ENVIRONMENTAL PROTECTION RESPONSIBILITIES

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

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

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

TO PARTICIPATE IN CHARITABLE ACTIVITIES

The Group has been receiving a lot of support from different segments of society since its establishment. It always upholds the principle of "rewarding to society and creating value for society" and supports all kinds of charity in particular helping the underprivileged.

Every year, the Group makes contribution to the Peak Sport Charity Fund which is set up by the Group and Quanzhou Charity Foundation. During 2010, the Group's contribution to the Fund amounted to RMB3 million. This reflects the Group's long term caring and support for charitable activities.

The Group also contributed about RMB1 million to various charitable organizations in Fujian and Jiangxi Provinces during 2010.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Xu Jingnan, aged 55, is the founder of the Group. He is also the Chairman, an ED, the chairman of the Executive Committee and a member of the Remuneration Committee of the Company. Mr. Xu is also a director and/or a member of senior management of various subsidiaries of the Company. He is the key decision-maker of the Group and responsible for the operation of the Board as well as the Group's overall strategic planning and the management of the Group's businesses. Mr. Xu launched the Peak brand in 1991 and has over 20 years of experience in the sportswear industry in China. In addition, Mr. Xu is a member of the 12th Quanzhou Municipal People's Congress, vice-chairman of the Fengze Area Committee of the People's Political Consultative Conference, committee member of Quanzhou General Chamber of Commerce and the chairman of the General Chamber of Commerce of Fengze District of Quanzhou City. Mr. Xu graduated from Central Institute of Socialism, majoring in Business Administration, in 1994. He was recognised as an economist in 1991 by the Human Resources Bureau of Fujian Province. He is also the controlling shareholder and director of Ever Sound Development Limited (a controlling shareholder of the Company), the spouse of Ms. Wu Tigao (a controlling shareholder and a NED of the Company), the father of Mr. Xu Zhihua (a substantial shareholder, the Chief Executive Officer and an ED of the Company) and Mr. Xu Zhida (a substantial shareholder and an ED of the Company), and the father-in-law of Ms. Wu Bingrui (the Sales Officer (International Sales) of the Company).

Mr. Xu Zhihua, aged 32, is an ED, Chief Executive Officer and a member of the Executive Committee of the Company. Currently, he is also a director and/or a member of senior management of certain subsidiaries of the Company. Mr. Xu is primarily responsible for the management of product sales, branding and marketing, as well as management of sales channels of the Group's businesses. Mr. Xu joined the Group in 2001 and has 10 years of experience in the sportswear industry in Mainland China. Mr. Xu obtained a Bachelor of Science degree in Applied Information Technology from Sichuan University in 2001 and a Master of Business Administration degree from Guanghua School of Management, Peking University in 2004. Mr. Xu was accredited "Top 10 Example Individual for Staff Management of Quanzhou City" in 2007 by various local authorities, including the Chinese Communist Party Quanzhou Commission (中共泉州市委組織部). He is also the sole shareholder and director of Alpha Top Group Limited (a substantial shareholder of the Company), a son of Mr. Xu Jingnan (a controlling shareholder, the Chairman and an ED of the Company) and Ms. Wu Tigao (a controlling shareholder and a NED of the Company), the elder brother of Mr. Xu Zhida (a substantial shareholder and an ED of the Company) and the brother-in-law of Ms. Wu Bingrui (the Sales Officer (International Sales) of the Company).

Mr. Xu Zhida, aged 30, is an ED, a member of the Executive Committee of the Company. Currently, he is also a director and/or a member of senior management of certain subsidiaries of the Company. Mr. Xu is primarily responsible for sales and marketing, production, research and development and product design, of the Group's businesses. Mr. Xu joined the Group in 2000 and has more than 10 years of experience in the sportswear industry in Mainland China. He is also the sole shareholder and director of Brilliant Lead Group Limited (a substantial shareholder of the Company), a son of Mr. Xu Jingnan (a controlling shareholder, the Chairman and an ED of the Company) and Ms. Wu Tigao (a controlling shareholder and a NED of the Company), a younger brother of Mr. Xu Zhihua (a substantial shareholder, the Chief Executive Officer and an ED of the Company) and the spouse of Ms. Wu Bingrui (the Sales Officer (International Sales) of the Company).

NON-EXECUTIVE DIRECTORS

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

Mr. Shen Nanpeng, aged 43, is a non-executive director and a member of the Remuneration Committee of the Company. He joined the Group in 2007. Mr. Shen obtained a Bachelor's degree from Shanghai Jiao Tong University in 1988 and a Master's degree from Yale University in 1992. Mr. Shen is the founding managing partner of Sequoia Capital China. He is also a director of a number of listed companies including E-House (China) Holdings Ltd. (a company listed on the New York Stock Exchange), American Dairy, Inc. (a company listed on the New York Stock Exchange), Ctrip.com International Limited (a company listed on NASDAQ Stock Market), Home Inns and Hotels Management Inc. (a company listed on NASDAQ Stock Market), Focus Media Holding Ltd. (a company listed on NASDAQ Stock Market), China Nuokang Bio-Pharmaceutical Inc. (a company listed on NASDAQ Stock Market), China Real Estate Information Corporation (a company listed on NASDAQ Stock Market), Le GaGa Holdings Limited (a company listed on NASDAQ Stock Market) and Mecox Lane Limited (a company listed on NASDAQ Stock Market). Mr. Shen has worked at Deutsche Bank, Chemical Bank, Lehman Brothers and Citibank and possesses more than 8 years working experience in the investment banking industry in New York and Hong Kong. Mr. Shen was awarded "Economic Figure of the Year" by CCTV in 2006 and was voted "Entrepreneur of the Year" by Asian Venture Capital Journal in 2004. Mr. Shen was named "Venture Capitalist of the Year" by Top Capital Magazine in March 2007 and was also named one of the "Top 10 Most Active Venture Capitalists" in 2006 and 2008 by Zero2IPO. He is also the sole shareholder and director of Max Wealth Enterprises Limited (a substantial shareholder of the Company), and a director of SC China Holding Limited and Sequoia Capital China Advisors Limited (wholly-owned subsidiaries of Max Wealth Enterprises Limited and substantial shareholders of the Company).

Mr. Zhu Linan, aged 48, was appointed as a NED of the Company in April 2009. Mr. Zhu holds a Master's degree in Electronic Engineering from Shanghai Jiao Tong University. He is a Senior Engineer certified by the Chinese Academy of Sciences and enjoys the special subsidy granted by the State Council of the People's Republic of China. Mr. Zhu is the founder, chief executive officer, managing director and a member of the Investment Committee of Legend Capital, a subsidiary of Legend Holdings Limited. He is the executive vice president of Legend Holdings Limited. Currently, Mr. Zhu also serves as a non-executive director at Lenovo Group Limited (a company listed on the Main Board of the Hong Kong Stock Exchange) and Foshan Saturday Shoes Co., Ltd. (a company listed on the Shenzhen Stock Exchange). Mr. Zhu has over 19 years of experience in the IT industry and rich management experience. Mr. Zhu was named as one of the "Top Venture Capitalists in 2009" by TopCapital, "Most Respected Entrepreneurs in 2008" by The Founder Magazine, "Most Well-recognized Investors in China's Venture Capital Industry in 2008" by Peking University Business Review, and "Top 10 VC Funds and Investors in 2008" by China Venture Capital and Private Equity Association (formerly known as "China Venture Capital Association").

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Xiang Bing, aged 48, was appointed as an INED of the Company in September 2009. He is also the chairman of each of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee of the Company. Dr. Xiang obtained a Doctor of Philosophy degree in Accounting from University of Alberta, Canada in 1991. Dr. Xiang is currently the founding dean and professor of Cheung Kong Graduate School of Business. He has extensive experience in cooperating with multi-national corporations to offer professional programs regarding, in particular, corporate governance and internal control, to their senior executives. Currently, Dr. Xiang is acting as an independent non-executive director of a number of listed companies in Hong Kong, Shenzhen and New York as follows:

Name of listed company	Stock code	Place of listing
Dan Form Holdings Company Limited	271	Hong Kong
HC International, Inc.	8292	Hong Kong
China Dongxiang (Group) Co., Ltd.	3818	Hong Kong
Little Sheep Group Limited	968	Hong Kong
Enerchina Holdings Limited	622	Hong Kong
Sinolink Worldwide Holdings Limited	1168	Hong Kong
Longfor Properties Co. Ltd.	960	Hong Kong
Guangzhou Automobile Group Co., Ltd. (listed on the Hong Kong Stock Exchange on 30 August 2010)	2238	Hong Kong
LDK Solar Co. Ltd.	LDK	New York
Perfect World Co. Ltd.	NASDAQ: PWRD	New York
E-House (China) Holdings Limited	EJ	New York
Yunnan Baiyao Group Co., Ltd.	000538	Shenzhen

Mr. Wang Mingquan, aged 64, was appointed as an INED of the Company in September 2009. He is also a member of both the Audit Committee and the Remuneration Committee, and the chairman of the Nomination Committee of the Company. Mr. Wang obtained a Bachelor of Chinese Language Literature degree from The Open University of Fujian in 1984. Mr. Wang has extensive experience in economic planning. Mr. Wang retired in September 2006. Before his retirement, Mr. Wang has worked as the head of Quanzhou Bureau of Foreign Trade and Economic Cooperation, the vice-director of Quanzhou Development and Reform Commission, the vice-head of Quanzhou Municipal Bureau of Statistics, the director of Licheng Development and Reform Bureau, and the secretary of the Chinese Communist Party Committee in Quanzhou Donghai Commune.

Dr. Ouyang Zhonghui, aged 63, was appointed as an INED of the Company in March 2011. He is also a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Dr. Ouyang graduated from the Faculty of Geology of Nanjing University majoring in Mining Geology in 1975. He obtained a Master's degree in Education and Doctorate's degree in Education from Harvard University in 1985 and 1993 respectively. Dr. Ouyang currently is the dean of the TSL School of Business and Information Technology of Quanzhou Normal University and the head of the Research Institute of E-Commerce of Quanzhou Normal University. He also holds a number of community positions including an executive director of the China Information Economics Society, an expert of the Informatization Expert Group for Manufacturing Industry in Fujian, the deputy director of the Expert Committee of the Leading Group for Quanzhou Informatization, and the chairman of Quanzhou Enterprise Informatization Association. Dr. Ouyang possesses nearly 30 years of experience in the development, application, research and education of information technology, enterprise informatization, e-commerce, information economy and regional economy. He was appointed as an instructor for master's students of the Software School of Xiamen University. Dr. Ouyang was granted the Sixth Friendship Award by the Government of Fujian Province in January 2010 due to his outstanding contribution to the social and economic development of Fujian.

SENIOR MANAGEMENT

Mr. Tsoi Ka Ho, aged 46, joined our Group in 2008 and is our Company's Chief Financial Officer and the Company Secretary. Mr. Tsoi graduated from The Hong Kong Polytechnic University with a Professional Diploma in Accountancy in 1988. He also obtained a Bachelor of Science degree in Economics from University of London in 1994. Mr. Tsoi is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Tsoi has over 20 years of experience in auditing, accounting, financial control and financial management.

Mr. Li Wei, aged 34, joined our Group in 2007 and is the Deputy General Manager of Peak (China) Company Limited. Prior to joining our Group, Mr. Li has been in the managerial positions in a number of sportswear companies in China for approximately 13 years.

Mr. Li Shumei, aged 45, joined our Group in 2006 and is our Group's Factory Manager (Footwear Division). Mr. Li was awarded a certificate on Production Management by Whitworth Institute for International Management in 1994. Prior to joining our Group, Mr. Li has been in the managerial positions in a number of sportswear companies in China and has over 20 years of experience in the sportswear industry.

Ms. Li Yashuang, aged 46, joined our Group in 2004 and is our Group's Factory Manager (Apparel Division). Ms. Li has more than 20 years of management experience in apparel industry.

Mr. Cai Jinhai, aged 34, joined our Group in 2007 and is our Chief Marketing Officer. Mr. Cai has more than 8 years of experience in sales and marketing.

Ms. Wu Bingrui, aged 30, joined our Group in 2004 and is our Sales Officer (International Sales). Ms. Wu obtained a Bachelor's degree in English Language from Fujian Normal University. Ms. Wu has approximately 7 years of sales and marketing experience in the sportswear industry. She is the daughter-in-law of Mr. Xu Jingnan (the Chairman and an ED) and Ms. Wu Tigao (a NED), the sister-in-law of Mr. Xu Zhihua (the Chief Executive Officer and an ED) and the spouse of Mr. Xu Zhida (Vice-president and an ED).

Ms. Lin Bi Lian, aged 42, joined our Group in 1989 and is our Sales Officer (Domestic Sales). Ms. Lin graduated from The Open University of Fujian (福建廣播電視大學), majoring in sales and marketing. Ms. Lin has over 20 years of sales and marketing experience in the sportwear industry.

Report of the Directors

The Directors are pleased to submit the annual report together with the audited consolidated financial statements for the year ended 31 December 2010.

REGISTERED OFFICE

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

PRINCIPAL ACTIVITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

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

CONSOLIDATED FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2010 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 57 to 95.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of RMB822,268,000 (2009: RMB628,308,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

An interim dividend of HK7 cents per ordinary share for the six months ended 30 June 2010 (2009: nil) was paid on 24 September 2010. The Directors recommended the payment of a final dividend of HK10 cents per ordinary share in respect of the year ended 31 December 2010 (2009: HK12 cents per share), totaling RMB176,897,000 (2009: RMB220,650,000).

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB3,990,000.

PROPERTY, PLANT AND EQUIPMENT

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

BANK LOANS AND OTHER BORROWINGS

There were no outstanding bank loans and other borrowings by the Company and the Group as at 31 December 2010.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2010, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB1,727,671,000 (2009: RMB2,136,521,000).

PRE-EMPTIVE RIGHTS

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

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the financial year ended 31 December 2010.

CONTINUING CONNECTED TRANSACTION

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

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

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

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

DIRECTORS

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

EDs

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

NEDs

Ms. Wu Tigao
Mr. Shen Nanpeng
Mr. Zhu Linan
Dr. Hu Zhanghong (resigned on 15 November 2010)

INEDs

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

DIRECTORS (continued)

In accordance with clause 84(1) of the Articles of Association, Mr. Xu Zhihua, Ms. Wu Tigao and Mr. Wang Mingquan, being not less than one-third of the Directors who are subject to retirement by rotation, will retire and, being eligible, offer themselves for re-election at the 2011 AGM.

Pursuant to clause 83(3) of the Articles of Association, Dr. Ouyang Zhonghui, who was appointed by the Board on 10 March 2011 to fill the casual vacancy left by the resignation of Dr. Rock Jin, shall hold office until the 2011 AGM and, being eligible, Dr. Ouyang Zhonghui will offer himself for re-election at the 2011 AGM.

DIRECTORS' SERVICE CONTRACTS

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

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

As at 31 December 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, or as known by the Company, were as follows:

(A) Long position in ordinary shares of the Company

Name of Director	Capacity	Note	Number of ordinary shares interested	Percentage+ of the Company's issued share capital
Mr. Xu Jingnan	Interest held by controlled corporation	1	741,164,020	35.33%
Ms. Wu Tigao	Interest held by controlled corporation	1	741,164,020	35.33%
Mr. Xu Zhihua	Interest held by controlled corporation	2	271,960,000	12.96%
Mr. Xu Zhida	Beneficial owner and interest held by controlled corporation	3	273,460,000	13.03%
Mr. Shen Nanpeng	Beneficial owner and interest held by controlled corporations	4	160,532,703	7.65%

Notes:

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

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

3. 2,000,000 of these shares were held by Mr. Xu Zhida while the remaining 271,460,000 shares were held by Brilliant Lead Group Limited, a corporation wholly owned and controlled by Mr. Xu Zhida.

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

4. 4,011,564 of these shares were held by Mr. Shen Nanpeng while the remaining 156,521,139 shares were held by the following six investment funds managed by Sequoia Capital China Advisors Limited, a wholly owned subsidiary of Max Wealth Enterprises Limited: Sequoia Capital China I, L.P. (for 51,005,127 shares); Sequoia Capital China Partners Fund I, L.P. (for 5,862,658 shares); Sequoia Capital China Principals Fund I, L.P. (for 7,894,715 shares); Sequoia Capital China Growth Fund I, L.P. (for 80,031,885 shares); Sequoia Capital China Growth Partners Fund I, L.P. (for 1,908,580 shares); and Sequoia Capital China GF Principals Fund I, L.P. (for 9,818,174 shares). The general partners of the first three investment funds and the last three investment funds above were Sequoia Capital China Management I, L.P. and Sequoia Capital China Growth Fund Management I, L.P., respectively. SC China Holding Limited, a wholly owned subsidiary of Max Wealth Enterprises Limited, was the general partner of both Sequoia Capital China Management I, L.P. and Sequoia Capital China Growth Fund Management I, L.P.

   As Max Wealth Enterprises Limited was wholly owned by Mr. Shen Nanpeng, he was deemed to be interested in the 156,521,139 shares in which Max Wealth Enterprises Limited had deemed interest as mentioned above pursuant to the SFO.

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

Name of Director	**Capacity**	Note	**Number of underlying shares in respect of the share options granted**	**Percentage+ of underlying shares over the Company's issued share capital**
Mr. Xu Zhida	Interest held by spouse	1&2	300,000	0.01%
Dr. Xiang Bing	Beneficial owner	2	200,000	0.01%
Mr. Wang Mingquan	Beneficial owner	2	200,000	0.01%
Dr. Rock Jin	Beneficial owner	2&3	200,000	0.01%

Notes:

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

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

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

+ The percentage represents the number of ordinary shares/underlying shares interested divided by the number of the Company's issued shares as at 31 December 2010.

Save as disclosed above and in the below section headed "Share Option Scheme", as at 31 December 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

Pursuant to the Company's share option scheme which was approved and adopted by the resolutions of all the shareholders of the Company passed on 8 September 2009 (the "Scheme"), the Company may grant share options to "Eligible Persons" (being Directors and full time or part time employees of any member of our Group) to subscribe for the Company's shares. The purpose of the Scheme is to provide incentive or reward to the Eligible Persons for their contribution to, and continuing efforts to promote the interests of, our Group and to enable our Group to recruit and retain high-calibre employees.

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

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

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

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

The total number of shares of the Company currently available for issue under the Scheme is 195,729,339 shares, representing approximately 9.33% of the issued share capital of the Company as at the date of this annual report.

SHARE OPTION SCHEME (continued)

Further details of the Scheme are set out in note 23 to the consolidated financial statements. Details of movements of the options granted under the Scheme for the year ended 31 December 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 1/1/2010	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31/12/2010	Exercise period (Note 2)
Independent Non-executive Directors									
Dr. Xiang Bing	1 June 2010	HK$5.604	–	60,000	–	–	–	60,000	A
			–	60,000	–	–	–	60,000	B
			–	80,000	–	–	–	80,000	C
			–	200,000	–	–	–	200,000	
Dr. Rock Jin (Note 3)	1 June 2010	HK$5.604	–	60,000	–	–	–	60,000	A
			–	60,000	–	–	–	60,000	B
			–	80,000	–	–	–	80,000	C
			–	200,000	–	–	–	200,000	
Mr. Wang Mingquan	1 June 2010	HK$5.604	–	60,000	–	–	–	60,000	A
			–	60,000	–	–	–	60,000	B
			–	80,000	–	–	–	80,000	C
			–	200,000	–	–	–	200,000	
Substantial Shareholder									
Ms. Wu Bingrui	1 June 2010	HK$5.604	–	90,000	–	–	–	90,000	A
(Sales Officer			–	90,000	–	–	–	90,000	B
(International Sales))			–	120,000	–	–	–	120,000	C
			–	300,000	–	–	–	300,000	
Employees of the Group									
In aggregate	9 February 2010	HK$5.196	–	3,919,500	–	–	(430,200)	3,489,300	D
			–	3,919,500	–	–	(430,200)	3,489,300	E
			–	5,226,000	–	–	(573,600)	4,652,400	F
			–	13,065,000	–	–	(1,434,000)	11,631,000	
In aggregate	1 June 2010	HK$5.604	–	549,000	–	–	(9,000)	540,000	A
			–	549,000	–	–	(9,000)	540,000	B
			–	732,000	–	–	(12,000)	720,000	C
			–	1,830,000	–	–	(30,000)	1,800,000	
			–	15,795,000	–	–	(1,464,000)	14,331,000	

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

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

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

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

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

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

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

As at 31 December 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+ of the Company's issued share capital
Ever Sound Development Limited	Beneficial owner	1	741,164,020	35.33%
Ms. Wu Bingrui	Interest held by spouse	2	273,460,000	13.03%
Alpha Top Group Limited	Beneficial owner	3	271,960,000	12.96%
Brilliant Lead Group Limited	Beneficial owner	4	271,460,000	12.94%
Max Wealth Enterprises Limited	Interest held by controlled corporations	5	156,521,139	7.46%
SC China Holdings Limited	Interest held by controlled corporations	5	156,521,139	7.46%
Sequoia Capital China Advisors Limited	Interest held by controlled corporations	5	156,521,139	7.46%

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

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

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

3. 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".

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

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

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

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

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

+ The percentage represents the number of ordinary shares/underlying shares interested divided by the number of the Company's issued shares as at 31 December 2010.

Save as disclosed above, as at 31 December 2010, no person, other than the Directors of the Company whose interests are set out in the section headed "Directors' interests and short positions in shares, underlying shares and debentures" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register of the Company required to be kept pursuant to Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

During the year ended 31 December 2010, the Group leased certain land and properties from Fujian Peak, a corporation controlled by Mr. Xu Jingnan, a Director of the Company. The rental expenses for 2010 were RMB2,259,000 (2009: RMB2,259,000).

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

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

CORPORATE 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 via the Company's website) of the Company's corporate communications[#]. Shareholders who have chosen/are deemed to have chosen to receive the corporate communications via the Company's website, and who for any reason have difficulty in receiving or gaining access to the Company's corporate communications will promptly upon request be sent the corporate communications in printed form free of charge. Shareholders have the right at any time to change their choice of language and means of receipt of the Company's corporate communications.

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

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

FIVE-YEAR FINANCIAL SUMMARY

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

CONFIRMATION OF INDEPENDENCE

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 42 to 45.

MANAGEMENT CONTRACTS

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

AUDITOR

KPMG will retire and, being eligible, offer itself for re-appointment at the 2011 AGM. A resolution for the re-appointment of KPMG as the auditor of the Company is to be proposed at the 2011 AGM.

On behalf of the Board

Xu Jingnan
Chairman

Hong Kong, 15 March 2011

INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of Peak Sport Products Co., Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 57 to 95, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

15 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Turnover	3	**4,249,361**	3,094,931
Cost of sales		**(2,633,051)**	(1,935,204)
Gross profit		**1,616,310**	1,159,727
Other revenue	4	**20,077**	11,166
Other net (loss)/income	4	**(6,763)**	4,579
Selling and distribution expenses		**(505,394)**	(380,198)
Administrative expenses		**(126,107)**	(77,556)
Profit from operations		**998,123**	717,718
Finance expenses	5(a)	**–**	(14,823)
Profit before income tax	5	**998,123**	702,895
Income tax	6	**(175,855)**	(74,587)
Profit for the year attributable to equity shareholders of the Company		**822,268**	628,308
Earnings per share (RMB cents)	11		
– Basic		**39.19**	36.12
– Diluted		**39.18**	36.12

The notes on pages 64 to 95 form part of these financial statements. Details of dividends proposed after the year end and paid during the year to equity shareholders of the Company are set out in note 10.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010
(Expressed in Renminbi)

	2010 RMB'000	2009 RMB'000
Profit for the year attributable to equity shareholders of the Company	**822,268**	628,308
Other comprehensive income for the year		
Exchange differences on translation of financial statements of foreign operations	**(2,103)**	(1,619)
Total comprehensive income for the year attributable to equity shareholders of the Company	**820,165**	626,689

The notes on pages 64 to 95 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	12	341,866	244,287
Construction in progress	13	54,174	61,266
Lease prepayments	14	15,914	16,257
Intangible assets	15	13,674	9,842
Deferred tax assets	24(b)	12,391	6,181
		438,019	337,833
Current assets			
Inventories	16	335,016	210,299
Trade and other receivables	18(a)	764,683	863,849
Pledged deposits	19	53,963	55,344
Deposits with banks with more than three months to maturity when placed		42,716	519,483
Cash and cash equivalents	20	2,565,827	1,413,325
		3,762,205	3,062,300
Current liabilities			
Trade and other payables	21(a)	608,324	339,483
Current tax liabilities	24(a)	63,077	27,244
		671,401	366,727
Net current assets		3,090,804	2,695,573
Total assets less current liabilities		3,528,823	3,033,406
Non-current liabilities			
Deferred tax liabilities	24(b)	47,034	31,239
Net assets		3,481,789	3,002,167
Equity			
Share capital	25(b)	18,459	18,459
Reserves	26	3,463,330	2,983,708
Total equity		3,481,789	3,002,167

Approved and authorised for issue by the Board of Directors on 15 March 2011.

Xu Jingnan
Director

Xu Zhihua
Director

The notes on pages 64 to 95 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Investments in subsidiaries	17	**552,549**	563,343
Current assets			
Other receivables	18(b)	**1,208,358**	1,647,194
Cash and cash equivalents	20	**40,772**	458
		1,249,130	1,647,652
Current liabilities			
Other payables	21(b)	**55,549**	56,015
Net current assets		**1,193,581**	1,591,637
Total assets less current liabilities		**1,746,130**	2,154,980
Net assets		**1,746,130**	2,154,980
Equity			
Share capital	25(b)	**18,459**	18,459
Reserves	26	**1,727,671**	2,136,521
Total equity		**1,746,130**	2,154,980

Approved and authorised for issue by the Board of Directors on 15 March 2011.

Xu Jingnan
Director

Xu Zhihua
Director

The notes on pages 64 to 95 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	Share capital RMB'000 (Note 25(b))	Share premium RMB'000 (Note 26(a))	Statutory reserve RMB'000 (Note 26(b))	Other reserve RMB'000 (Note 26(c))	Exchange reserve RMB'000 (Note 26(d))	Share-based payment reserve RMB'000 (Note 26(e))	Retained profits RMB'000	Total equity RMB'000
At 1 January 2009		13,188	–	23,221	81,354	–	–	656,244	774,007
Capital injection		1,573	270,608	–	–	–	–	–	272,181
Shares issued under public offering		3,698	1,438,399	–	–	–	–	–	1,442,097
Appropriation to statutory reserve		–	–	72,808	–	–	–	(72,808)	–
Dividends approved and declared	10(b)	–	(112,807)	–	–	–	–	–	(112,807)
Total comprehensive income:									
Profit for the year		–	–	–	–	–	–	628,308	628,308
Other comprehensive income		–	–	–	–	(1,619)	–	–	(1,619)
At 31 December 2009		**18,459**	**1,596,200**	**96,029**	**81,354**	**(1,619)**	**–**	**1,211,744**	**3,002,167**
Appropriation to statutory reserve		**–**	**–**	**94,865**	**–**	**–**	**–**	**(94,865)**	**–**
Dividends approved and declared		**–**	**(349,250)**	**–**	**–**	**–**	**–**	**–**	**(349,250)**
Equity-settled share-based payments		**–**	**–**	**–**	**–**	**–**	**8,707**	**–**	**8,707**
Total comprehensive income:									
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**822,268**	**822,268**
Other comprehensive income		**–**	**–**	**–**	**–**	**(2,103)**	**–**	**–**	**(2,103)**
At 31 December 2010		**18,459**	**1,246,950**	**190,894**	**81,354**	**(3,722)**	**8,707**	**1,939,147**	**3,481,789**

The notes on pages 64 to 95 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
Profit before income tax		998,123	702,895
Adjustments for:			
– Depreciation	5(c)	21,598	14,677
– Amortisation of lease prepayments	5(c)	343	343
– Finance expenses	5(a)	–	14,823
– Interest income	4	(9,906)	(4,568)
– Loss on disposal of property, plant and equipment	5(c)	3,029	512
– Gain on disposal of lease prepayments	4	–	(3,813)
– Amortisation of intangible assets	15	302	13
– Foreign exchange losses		4,185	292
– Equity-settled share-based payments expenses		8,707	–
Operating profit before changes in working capital		1,026,381	725,174
Increase in inventories		(124,717)	(41,033)
Decrease/(increase) in trade and other receivables		113,255	(355,373)
Increase/(decrease) in trade and other payables		275,997	(9,361)
Cash generated from operations		1,290,916	319,407
Income tax paid		(130,437)	(50,500)
Net cash generated from operating activities		1,160,479	268,907
Investing activities			
Payment for purchase of property, plant and equipment		(68,835)	(35,434)
Proceeds from sale of property, plant and equipment		733	172
Proceeds from disposal of lease prepayments		–	6,713
Payment for construction in progress		(54,169)	(74,226)
Payment for lease prepayments		(14,090)	(1,000)
Payment for intangible assets		(4,134)	–
Interest received		9,906	4,568
Decrease/(increase) of deposits with banks with more than three months to maturity when placed		476,767	(519,483)
Decrease in pledged deposits		1,381	14,912
Net cash generated from/(used in) investing activities		347,559	(603,778)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Financing activities			
Proceeds from bank loans		–	388,954
Repayment of bank loans		–	(591,187)
Proceeds from issue of shares, net of issuing expenses		–	1,714,278
Net advances to related parties		–	(50,987)
Interest paid		–	(16,387)
Dividends paid to equity shareholders		(349,250)	(112,807)
Net cash (used in)/generated from financing activities		(349,250)	1,331,864
Net increase in cash and cash equivalents		1,158,788	996,993
Cash and cash equivalents at 1 January		1,413,325	418,377
Effect of foreign exchange rate changes		(6,286)	(2,045)
Cash and cash equivalents at 31 December	20	2,565,827	1,413,325

The notes on pages 64 to 95 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the consolidated financial statements

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

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries.

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

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

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

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

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 31.

(c) Subsidiaries

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment

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

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

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

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

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

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

(e) Construction in progress

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

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

(f) Lease prepayments

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

(g) Intangible assets

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Operating lease charges

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

(i) Impairment of assets

(i) Impairment of trade and other receivables

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

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

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

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

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

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

(i) Impairment of assets (continued)

(ii) Impairment of other assets

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

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Inventories

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

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

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

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

(k) Trade and other receivables

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

(l) Interest-bearing borrowings

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

(m) Trade and other payables

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

(n) Cash and cash equivalents

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

(o) Employee benefits

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

(ii) Share-based payments

The fair value of share options granted to directors and employees is recognised as a staff cost with a corresponding increase in the share-based payment reserve within equity. The fair value is measured at the grant date using the Black-Scholes-Merton Option Pricing Model, taking into account the terms and conditions upon which the options 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 profit or loss for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the share-based payment reserve. On vesting date, the amount 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 retained profits).

(p) Income tax

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax (continued)

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

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

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

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

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

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

(r) Revenue recognition

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

(i) Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and incentive rewards and renovation subsidies (note 1(v)). Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(ii) Interest income

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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue recognition (continued)

(iii) Government grants

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

(s) Translation of foreign currencies

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

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

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

(t) Borrowing costs

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

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

(u) Advertising and promotion

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

Expenditure on media advertising, primarily TV and internet advertisements and relevant placement costs are expensed in the month the advertisement appears.

Expenditure on sponsorship and endorsement of sport associations and professional athletes are accounted for on a straight-line basis over the period of relevant sponsorship and endorsement agreements.

(v) Incentive rewards and renovation subsidies

The Group offers incentive rewards its distributors who meet or exceed predetermined annual sales targets based on their annual purchase amount. Such rewards are in the form of deductions from the distributors' subsequent purchases of the Group's products.

The Group provides renovation subsidies to its distributors to expand the number of authorised Peak retail outlets and create a uniform store image and layout. The Group determines the renovation subsidies based on the location, size and rental of the new authorised Peak retail outlets opened and the compliance with the Group's renovation standards.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Dividends

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

(x) Related parties

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

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

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

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

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

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

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

(y) Segment reporting

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

2 ADOPTION OF NEW ACCOUNTING POLICIES

The IASB has issued two revised International Financial Reporting Standards ("IFRSs"), a number of amendments to IFRSs and two new interpretations 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 consolidated financial statements.

The improvements to IFRSs (2009) have had no material impact on the Group's consolidated financial statements as the amendments were consistent with policies already adopted by the Group.

3 TURNOVER

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

	2010 RMB'000	2009 RMB'000
Footwear	**1,813,652**	1,397,228
Apparel	**2,317,602**	1,606,028
Accessories	**118,107**	91,675
	4,249,361	3,094,931

The Group has one customer with whom transactions have exceeded 10% of the Group's aggregate turnover. The amount of sales from this customer amounted to approximately RMB457,565,000 for the year ended 31 December 2010 (2009: RMB343,505,000).

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

	2010 RMB'000	2009 RMB'000
PRC	**3,848,448**	2,820,592
Overseas	**400,913**	274,339
Total	**4,249,361**	3,094,931

Substantially all of the Group's property, plant and equipment and capital expenditure, based on where the assets are located, are located or spent in the PRC.

4 OTHER REVENUE AND NET (LOSS)/INCOME

	2010 RMB'000	2009 RMB'000
Other revenue		
Interest income	**9,906**	4,568
Government grants	**10,133**	6,441
Others	**38**	157
	20,077	11,166
Other net (loss)/income		
Exchange (loss)/gain	**(7,126)**	1,122
Gain on disposal of lease prepayments	**–**	3,813
Gain/(loss) on sales of materials	**363**	(356)
	(6,763)	4,579

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

5 PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

		2010 RMB'000	2009 RMB'000
(a)	Finance expenses:		
	Interest on bank borrowings	**–**	12,149
	Interest on related party borrowings (note 29(c))	**–**	2,674
		–	14,823
(b)	Staff costs:		
	Contributions to defined contribution retirement plans	**3,345**	1,740
	Equity-settled share-based payments expenses (note 23)	**8,707**	–
	Salaries, wages and other benefits	**255,490**	159,466
		267,542	161,206
(c)	Other items:		
	Amortisation of lease prepayments	**343**	343
	Auditors' remuneration	**2,746**	1,830
	Depreciation	**21,598**	14,677
	Operating lease charges in respect of properties	**4,768**	2,695
	Cost of inventories#	**2,633,051**	1,935,204
	Incentive rewards and renovation subsidies*	**123,150**	78,650
	Advertising and promotion expenses	**460,225**	349,380
	Loss on disposal of property, plant and equipment	**3,029**	512

\# Cost of inventories for the year ended 31 December 2010 includes RMB190,234,000 (2009: RMB120,162,000) 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 5(b) and (c) for each of these types of expenses.

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

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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

	2010 RMB'000	2009 RMB'000
Current tax – PRC income tax		
Provision for the year	**166,270**	64,528
Deferred tax		
Origination and reversal of temporary differences	**9,585**	10,059
	175,855	74,587

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

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

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

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

	2010 RMB'000	2009 RMB'000
Profit before income tax	998,123	702,895
Notional tax on profit before income tax, calculated at the standard tax rates applicable to the respective tax jurisdiction	255,310	184,337
Effect of lower tax rates applicable to subsidiaries as a result of preferential tax policy as described in 6(a)	(116,204)	(131,496)
Tax effect of non-deductible expenses	28,219	12,919
Tax effect of non-taxable income	(7,265)	(112)
Effect of withholding tax	15,795	8,939
Income tax	175,855	74,587

7 DIRECTORS' REMUNERATION

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

Year ended 31 December 2010

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

7 DIRECTORS' REMUNERATION (continued)

Year ended 31 December 2009

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

8 INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2009: three) are Directors whose remuneration is disclosed in note 7 above. The aggregate of the emoluments in respect of the remaining two individuals for 2010 (2009: two) are as follows:

	2010 RMB'000	2009 RMB'000
Salaries and other emoluments	3,085	1,730
Equity-settled share-based payments	274	–
Contributions to defined contribution retirement plans	11	21
	3,370	1,751

The emoluments of the two individuals (2009: two) with the highest emoluments are within the following bands:

	2010 Number of individuals	2009 Number of individuals
HK$1 to HK$1,000,000	–	1
HK$1,000,001 to HK$1,500,000	–	–
Over HK$1,500,000	2	1
	2	2

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB5,871,000 (2009: RMB8,216,000) which has been dealt with in the financial statements of the Company.

10 DIVIDENDS

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

	2010 RMB'000	2009 RMB'000
Interim dividend declared and paid of HK7 cents per ordinary share (2009: nil)	128,600	–
Final dividend proposed after the end of the reporting period of HK10 cents per ordinary share (2009: HK12 cents per ordinary share)	176,897	220,650
	305,497	220,650

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

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

	2010 RMB'000	2009 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK12 cents per ordinary share (2009: HK8.53 cents per ordinary share)	220,650	112,807

11 EARNINGS PER SHARE

(a) **Basic earnings per share**

The calculation of basic earnings per share is based on the profit for the year attributable to equity shareholders of the Company of RMB822,268,000 (2009: RMB628,308,000) and the weighted average number of issued ordinary shares of 2,097,903,000 (2009: 1,739,306,000 shares) during the year.

(b) **Diluted earnings per share**

The calculation of diluted earnings per share is based on the profit for the year attributable to equity shareholders of the Company of RMB822,268,000 (2009: RMB628,308,000) and the weighted average number of shares in issue adjusted for the potential dilutive effect caused by the share options granted under the Company's share option scheme (see note 23) assuming they were exercised during the year.

Weighted average number of ordinary shares (diluted)

	2010 **'000 shares**	2009 '000 shares
Weighted average number of ordinary shares	**2,097,903**	1,739,306
Effect of deemed issue of shares under the Company's share option scheme	**973**	–
Weighted average number of ordinary shares (diluted)	**2,098,876**	1,739,306

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

12 PROPERTY, PLANT AND EQUIPMENT

		The Group				
	Note	Buildings	Plant and machinery	Motor vehicles	Furniture and fixtures	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2009		89,367	49,610	1,827	13,320	154,124
Additions		2,642	15,336	2,199	3,890	24,067
Transfer from construction in progress	13	96,890	806	–	931	98,627
Disposals		–	(1,403)	–	(10)	(1,413)
At 31 December 2009		188,899	64,349	4,026	18,131	275,405
Additions		25,843	25,047	5,020	5,913	61,823
Transfer from construction in progress	13	60,809	307	–	–	61,116
Disposals		–	(5,478)	(700)	(123)	(6,301)
At 31 December 2010		**275,551**	**84,225**	**8,346**	**23,921**	**392,043**
Accumulated depreciation:						
At 1 January 2009		2,618	10,536	529	3,487	17,170
Charge for the year		6,000	5,786	407	2,484	14,677
Written back on disposals		–	(722)	–	(7)	(729)
At 31 December 2009		8,618	15,600	936	5,964	31,118
Charge for the year		9,892	7,351	869	3,486	21,598
Written back on disposals		–	(2,088)	(388)	(63)	(2,539)
At 31 December 2010		**18,510**	**20,863**	**1,417**	**9,387**	**50,177**
Net book value:						
At 31 December 2009		180,281	48,749	3,090	12,167	244,287
At 31 December 2010		**257,041**	**63,362**	**6,929**	**14,534**	**341,866**

Buildings with carrying amount of RMB156,036,000 (2009: RMB159,837,000) have been pledged to banks as security for bills payable and facilities as at 31 December 2010 (see note 21).

13 CONSTRUCTION IN PROGRESS

	Note	The Group 2010 RMB'000	2009 RMB'000
At 1 January		**61,266**	95,189
Additions		**54,024**	64,704
Transfer to property, plant and equipment	12	**(61,116)**	(98,627)
At 31 December		**54,174**	61,266

Construction in progress comprises costs incurred on property, plant and equipment not yet completed at the respective end of the reporting periods. No construction in progress (2009: RMB4,177,000) was pledged to banks as security for bills payable and facilities as at 31 December 2010 (see note 21).

14 LEASE PREPAYMENTS

	The Group 2010 RMB'000	2009 RMB'000
Cost:		
At 1 January	**17,084**	20,058
Disposal	**–**	(2,974)
At 31 December	**17,084**	17,084
Accumulated amortisation:		
At 1 January	**827**	558
Charge for the year	**343**	343
Write back on disposal	**–**	(74)
At 31 December	**1,170**	827
Net book value:		
At 31 December	**15,914**	16,257

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

Lease prepayments with carrying amount of RMB14,534,000 (2009: RMB16,257,000) were pledged to banks as security for bills payable and bank facilities as at 31 December 2010 (see note 21).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

15 INTANGIBLE ASSETS

	The Group		
	Trademarks RMB'000	**Software** RMB'000	**Total** RMB'000
Cost:			
At 1 January 2010	9,799	57	9,856
Additions	2,456	1,678	4,134
At 31 December 2010	**12,255**	**1,735**	**13,990**
Accumulated amortisation:			
At 1 January 2010	–	14	14
Charge for the year	–	302	302
At 31 December 2010	**–**	**316**	**316**
Net book value:			
At 31 December 2009	9,799	43	9,842
At 31 December 2010	**12,255**	**1,419**	**13,674**

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

16 INVENTORIES

	The Group	
	2010 **RMB'000**	2009 RMB'000
Raw materials	**52,267**	35,456
Work in progress	**104,106**	62,018
Finished goods	**178,643**	112,825
	335,016	210,299

17 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010	2009
	RMB'000	RMB'000
Unlisted shares, at cost	**552,549**	563,343

Particulars of the subsidiaries are set out below:

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

18 TRADE AND OTHER RECEIVABLES

(a) The Group

	2010 RMB'000	2009 RMB'000
Bills receivable	–	12,720
Trade receivables	695,638	761,613
Deposits and prepayments	51,676	81,590
Others	17,369	7,926
	764,683	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 end of the reporting period based on the invoice date:

	2010 RMB'000	2009 RMB'000
Within 3 months	695,638	765,213
3 to 6 months	–	9,120
	695,638	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 based on credit history, market conditions, prior year's purchases and estimated purchases for the coming year. In considering the amount of revolving credit, the Group also takes into account the funding needs of the distributors in expanding the sales network. The Group generally evaluates the credit limits granted to the domestic distributors annually upon renewal of the relevant distribution agreements. There were no trade debts that were considered past due.

At the end of each reporting period, the Group considered whether impairment provision for doubtful debts for trade and other receivables need to be set up and no provision was considered necessary at the end of 2010. Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly (see note 1(i)(i)).

(b) The Company

The balance as at 31 December 2010 represented amounts due from a subsidiary. These amounts are unsecured, non-interest bearing and are expected to be repaid within the next twelve months.

19 PLEDGED DEPOSITS

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

20 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits with banks within three months to maturity when placed	**–**	79,244	**–**	–
Cash at bank and in hand	**2,565,827**	1,334,081	**40,772**	458
	2,565,827	1,413,325	**40,772**	458

As at 31 December 2010, the balances denominated in RMB that were placed with banks in the PRC and included in the cash and cash equivalents above amounted to RMB2,456,022,000 (2009: RMB1,025,763,000). Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

21 TRADE AND OTHER PAYABLES

(a) **The Group**

	2010	2009
	RMB'000	RMB'000
Bills payable	**251,780**	207,520
Trade payables	**182,533**	22,011
Other payables and accruals	**174,011**	109,952
	608,324	339,483

Bills payable as at 31 December 2010 were secured by the Group's property, plant and equipment, lease prepayments and pledged bank deposits (see notes 12, 14 and 19).

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

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

	2010	2009
	RMB'000	RMB'000
Within 3 months	**288,143**	87,240
3 to 6 months	**146,070**	142,291
6 months to 1 year	**100**	–
	434,313	229,531

(b) **The Company**

The balance as at 31 December 2010 represented amounts due to subsidiaries. These amounts are unsecured, non-interest bearing and are expected to be repaid within the next twelve months.

(Expressed in Renminbi unless otherwise indicated)

22 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

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

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

23 SHARE-BASED PAYMENTS

Pursuant to the shareholders' written resolution 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 the right to subscribe for one ordinary share in the Company and is settled gross in shares.

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

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

23 SHARE-BASED PAYMENTS (continued)

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

	2010 Weighted average exercise price	2010 Number of options '000
Outstanding at the beginning of the year	–	–
Granted during the year		
on 9 February 2010	HK$5.1960	13,065
on 1 June 2010	HK$5.6040	2,730
Lapsed during the year	HK$5.1960	(1,434)
	HK$5.6040	(30)
Outstanding at the end of the year	HK$5.2729	14,331
Exercisable at the end of the year	–	–

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

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

The fair value of share options and assumptions are as follows:

	2010					
	Batch 1	Batch 2	Batch 3	Batch 4	Batch 5	Batch 6
Fair value at measurement date (HK$)	1.2920	1.3850	1.4684	1.7189	1.8213	1.9123
Share price (HK$)	4.6900	4.6900	4.6900	5.7900	5.7900	5.7900
Exercise price (HK$)	5.1960	5.1960	5.1960	5.6040	5.6040	5.6040
Expected volatility	54.16%	54.16%	54.16%	48.99%	48.99%	48.99%
Expected option life	3 years	3.5 years	4 years	3 years	3.5 years	4 years
Expected dividends	3.326%	3.326%	3.326%	2.694%	2.694%	2.694%
Risk-free rate	0.930%	1.179%	1.427%	0.983%	1.134%	1.284%

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2010 RMB'000	2009 RMB'000
Provision for PRC income tax	63,077	27,244

(b) Recognised deferred tax assets and liabilities

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

	The Group			
	Provision of incentive rewards and renovation subsidy RMB'000	Pre-operating expenses, accruals and others RMB'000	Undistributed profits of subsidiaries in the PRC since 1 January 2008 RMB'000	Total RMB'000
Deferred tax arising from:				
At 1 January 2009	6,381	920	(22,300)	(14,999)
Charged to profit or loss	(4,044)	2,924	(8,939)	(10,059)
At 31 December 2009	2,337	3,844	(31,239)	(25,058)
Charged to profit or loss	2,627	3,583	(15,795)	(9,585)
At 31 December 2010	**4,964**	**7,427**	**(47,034)**	**(34,643)**

	2010 RMB'000	2009 RMB'000
Represented by:		
Deferred tax assets	12,391	6,181
Deferred tax liabilities	(47,034)	(31,239)
	(34,643)	(25,058)

(c) Deferred tax liabilities not recognised

At 31 December 2010, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB992,221,000 (2009: RMB454,339,000). Deferred tax liabilities of 49,611,000 (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.

25 SHARE CAPITAL

(a) The Company's authorised share capital is as follows:

	Par value HK$	Number of shares '000	Nominal value of ordinary shares HK$'000
Authorised:			
At 1 January 2009, 31 December 2009 and 2010	0.01	5,000,000	50,000

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

	Par value	Number of shares	Nominal value of ordinary shares	
	HK$	'000	HK$'000	RMB'000
Ordinary shares, issued and fully paid:				
At 1 January 2009	0.01	1,500,000	15,000	13,188
Capital injection	0.01	178,323	1,783	1,573
Issues of shares under public offering	0.01	419,580	4,196	3,698
At 31 December 2009 and 2010	**0.01**	**2,097,903**	**20,979**	**18,459**

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

26 RESERVES

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

	Share premium RMB'000 (Note a)	Other reserve RMB'000 (Note c)	Exchange reserve RMB'000 (Note d)	Share-based payment reserve RMB'000 (Note e)	Accumulated losses RMB'000	Total RMB'000
At 1 January 2009	–	549,336	1,728	–	–	551,064
Total comprehensive income:						
Loss for the year	–	–	–	–	(8,216)	(8,216)
Other comprehensive income	–	–	(2,527)	–	–	(2,527)
Capital injection	270,608	–	–	–	–	270,608
Shares issued under public offering, net of issuing expenses	1,438,399	–	–	–	–	1,438,399
Dividends approved and paid	(112,807)	–	–	–	–	(112,807)
At 31 December 2009	1,596,200	549,336	(799)	–	(8,216)	2,136,521
Total comprehensive income:						
Loss for the year	–	–	–	–	(5,871)	(5,871)
Other comprehensive income	–	–	(62,436)	–	–	(62,436)
Equity-settled share-based payments	–	–	–	8,707	–	8,707
Dividends approved and paid	(349,250)	–	–	–	–	(349,250)
At 31 December 2010	**1,246,950**	**549,336**	**(63,235)**	**8,707**	**(14,087)**	**1,727,671**

26 RESERVES (continued)

(a) Share premium

The application of the share premium of the Company is governed by the Companies Law (Revised) of the Cayman Islands. The share premium is distributable to the shareholders of the Company provided that immediately following the date on which 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 acquired 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".

(f) Distributable reserve

The distributable reserve of the Company as at 31 December 2010 was RMB1,727,671,000 (2009: RMB2,136,521,000).

(g) Capital management

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

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

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose the Group defines net debt as interest-bearing loans less cash and capital is defined as the total equity. As at 31 December 2010, the Group did not borrow any interest-bearing loans while it had cash in excess of interest-bearing loans as at 31 December 2009. It is the management's intention to restrict the ratio below 50% in the long run. To achieve this end, the Group may adjust the amount of dividends to be paid to shareholders, issue new shares or raise new debts.

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

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

(a) Credit risk

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

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

At the end of the reporting period, 10% (2009: 7%) and 26% (2009: 25%) of the total trade receivables were due from the Group's largest customer and the five largest customers respectively.

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

(b) Liquidity risk

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

(c) Interest rate risk

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

(d) Currency risk

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

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

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

	2010 '000	2009 '000
Trade and other receivables		
US$	8,209	567
HK$	251	2,699
Cash and cash equivalents		
US$	1,109	9,792
HK$	4,421	274,230
Deposits with banks with more than three months to maturity when placed		
US$	6,450	–
HK$	–	680,000
Trade and other payables		
US$	2,867	–
HK$	548	5,475

Sensitivity analysis

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

A 5% strengthening of the RMB against US$/HK$ at 31 December 2010 would have increased/(decreased) the after-tax profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2010 RMB'000	2009 RMB'000
Effect in RMB'000		
US$	(3,712)	(3,190)
HK$	(175)	(41,876)

A 5% weakening of the RMB against US$/HK$ at 31 December 2010 would have had the equal but opposite effect on the after-tax profit by the amounts shown above, on the basis that all other variables remain constant.

(e) Commodity price risk

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

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Business risk

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

(g) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2010 and 2009 because of the short maturities of these instruments.

28 COMMITMENTS

(a) Capital commitments

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

	The Group	
	2010	2009
	RMB'000	RMB'000
Contracted for	**16,769**	12,791
Authorised but not contracted for	**29,821**	19,439
	46,590	32,230

(b) Operating leases

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

	The Group	
	2010	2009
	RMB'000	RMB'000
Within 1 year	**5,333**	3,114
After 1 year but within 5 years	**15,874**	11,969
After 5 years	**6,776**	6,776
	27,983	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 include contingent rentals.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

29 MATERIAL RELATED PARTY TRANSACTIONS

(a) **Key management personnel compensation**

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

	2010 RMB'000	2009 RMB'000
Short-term employee benefits	6,763	3,808
Equity-settled share-based payments	604	–
Contributions to defined contribution retirement plans	57	57
	7,424	3,865

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

(b) **Lease of land and properties**

During the year ended 31 December 2010, the Group leased certain land and properties from Fujian Peak Group Co., Ltd, which is controlled by a controlling shareholder of the Company. The rental expenses for the year ended 31 December 2010 were RMB2,259,000 (2009: RMB2,259,000).

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

(c) **Amounts advanced from a related party**

With effect from 1 September 2008, the amount due to Mr. Xu Jingnan (the "advance"), a controlling 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 year ended 31 December 2009 were RMB2,674,000. The advance was settled in April 2009.

30 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

The Directors consider the immediate holding companies of the Company as at 31 December 2010 to be three entities incorporated in BVI and controlled by Mr. Xu Jingnan, Mr. Xu Zhihua, Mr. Xu Zhida and Ms. Wu Tigao (the "Xu's family"), while the ultimate controlling parties of the Company as at 31 December 2010 to be the Xu's family. These entities do not provide financial statements available for public use.

31 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) **Impairments**

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

31 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) **Impairments (continued)**

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

(b) **Net realisable value of inventories**

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

(c) **Impairment of trade and other receivables**

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

(d) **Depreciation and amortisation**

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

32 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

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

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these consolidated financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these consolidated financial statements.

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

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

GLOSSARY

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

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

Peak Sport Products Co., Limited
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